

# PROBLEMS AND EXERCISES IN ECONOMICS

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BY

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## PREFACE

This book of problems and exercises, originally prepared for the use of students in the University of Minnesota, has been thoroughly revised and enlarged for the present edition. It is designed to serve teachers and students in the Principles of Economics by furnishing illustrative problems and exercises in convenient form. It is believed that the use of such problems will tend to accomplish the following results:

(1) Illustrate the principles of the science and the subject-matter of the text.

(2) Form a basis for class discussions, and for discussions by students outside of class.

(3) Promote close thinking on the part of the student.

(4) Encourage students to read more critically.

(5) Stimulate interest in the subject.

The problem method succeeds best when certain problems are assigned for written exercises, the papers read and returned to the student, with errors indicated, to be corrected and returned to the instructor. For large classes this plan can be best followed by having special assistants to read the

papers. But preparation of the papers by the student, even if some, or all of them, may not be given specific criticism, is eminently worth while, as is the study of problems without reducing the answers to writing. A few suggestions with regard to the method of attacking problems, together with a scheme for the preparing and marking of papers, are included at the end of the book. It is suggested that teachers use care in assigning problems, that those which are too difficult for the student or those for which help is not contained in the text or assigned reading shall be omitted.

The outline of the book, and the order of arrangement of the problems follow, in general, Professor Seager's *Principles of Economics*, which it is intended to accompany. As the problems and exercises relate to the general principles of economics rather than to the particular subject-matter of the text, and as many of them contain within themselves most of the data needed for their solution, the book should prove practically as well suited to accompany any other text-book.

The author wishes to acknowledge a very special indebtedness to Professor F. M. Taylor, of the University of Michigan, first, for the general idea of the problem method which is embodied in this book; secondly, for the training, while student and teacher under his direction, in his method of constructing

problems and adapting them to effective use; and thirdly, for a large number of problems either copied or adapted from his *Principles of Economics* and from his lists of examination questions, for which he gave generous permission. The author is also under special obligation to Dr. Carl E. Parry, of Ohio State University, for valuable suggestions and criticisms. In addition, he wishes to express appreciation for permission to use a few problems prepared by Dr. Parry, and a few from the *Outlines of Economics* published by the University of Chicago Press. Such problems, together with those from Professor Taylor, are indicated by the appropriate initial, without parenthesis if copied, with parenthesis if adapted.

H. G. H.

MINNEAPOLIS,  
February 5, 1916.



# PROBLEMS AND EXERCISES IN ECONOMICS

## I.

### INTRODUCTION.

1. *a.* Mention several wants which you have which are dependent upon economic goods for their satisfaction.

*b.* Mention wants which you have which are in no way dependent upon economic goods for their satisfaction.

2. Define economics. Amplify the definition showing what the science includes and what it excludes.

3. *a.* Are the questions suggested by the following terms economic: woman suffrage, prison reform, Sunday baseball, six-year presidential term, inter-collegiate athletics, eight-hour day, submarine warfare?

*b.* Do those which are not economic involve economic considerations? Explain.

4. List five important questions of the day. Designate those which are essentially economic and those which involve economic matters.

5. List five questions of local importance in your city or town. Which of these are economic? Which involve economic matters without being essentially economic?

6. Name some of the laws of this state that have economic consequences. Can you mention any important state law that is without economic effect?

7. Is the main purpose which you hope to accomplish in life economic? If not, is it in any degree economic?

8. How is family life dependent upon economic conditions?

9. Do you believe that social prestige is largely dependent upon economic possession? If so, is the fact regrettable? Explain fully.

10. Suggest two subjects of interest to economics students to-day that were not considered fifty years ago. Account for their development.

11. Give an historic illustration of the fact that economic strength is vital to the life of a people.

## II.

### RISE OF MODERN INDUSTRY IN ENGLAND.

1. *a.* Account for the term "Manorial System."  
*b.* State the chief characteristics of this system.  
*c.* What were the advantages of this system as compared with our present industrial system? The disadvantages?

2. What was the main purpose of the guilds?  
What is the main purpose of our labor unions?

3. "Statutes of Laborers—passed in 1351, and subsequent years—seem to have had little practical effect."—SEAGER, p. 7. Account for these laws and for their failure.

4. *a.* What was the "National System"?  
*b.* Account for the existence of this system.  
*c.* Are we at all tending toward such a system to-day? Illustrate.

5. *a.* What was the "Mercantile System"?  
*b.* What was the relation between this system and the "National System"?

c. Were the American colonists at all affected by the mercantile policy? Explain.

6. "The mechanical inventions were not the cause of the Industrial Revolution; they were only an incident." Argue in support of this view. Do you agree?

7. a. What do the words *laissez-faire* mean?

b. What is meant by a *laissez-faire* policy?

8. "The policy of *laissez-faire* was an inevitable product of the time in which it originated."

a. Give supporting argument.

b. Does this help to account for the abandonment of the policy of mercantilism?

9. Give reasons for preferring to have lived before the advent of the factory system. For preferring to live under the factory system.

10. Did the factory system lead to a modification of the *laissez-faire* policy? Explain.

11. Is the tendency to-day toward a greater or a lesser application of the *laissez-faire* policy? Cite evidence to support your answer.

### III.

## THE INDUSTRIAL EXPANSION OF THE UNITED STATES.

1. "The industrial opportunities that prevailed in the United States during the last two centuries made the *laissez-faire* principle inevitable." Give supporting argument.

2. "Very early the North and South began to quarrel about protection to manufacturing industries."

a. State explicitly just why there was a conflict of interest in regard to protection.

b. Does this conflict of interest still exist? If so, has it at all abated? Cite evidence in support of your answers.

3. State the chief economic advantage that has resulted from the development of our railroads; the political advantage; the general social advantage.

4. Account for the fact that in Iowa alone there was not an increase in population during the decade ending 1910.

5. What are the economic forces back of the rela-

tively large increase of urban population as compared with rural population?

6. Cite evidence to support "the growing conviction that in protecting liberty and property the government of the United States has neglected the interests of equality."

7. "From 1899 to 1909 the number of wage-earners in manufacturing establishments increased 40 per cent and the value of the products increased 81 per cent." What is the significance of this statement? Would the increase in the volume of manufactured goods as compared with the increase in the number of laborers in manufacturing establishments be more vital than this comparison? Explain.

8. "In 1850 we produced 1 ton of cereals per person. In 1900, with a smaller proportion of our population engaged in agriculture, we produced  $1\frac{1}{2}$  tons of cereals per person."—SMITH, *Industrial and Commercial Geography*, p. 556. How do you account for this increase in product per person?

9. "Relatively our exports of manufactured products are increasing at the expense of our exports of agricultural products." Account for this fact. Argue that we may expect a still greater relative increase in the export of manufactured goods.

10. "The per capita foreign trade of the Falkland Islands is about \$600 per person, while that of the United States is less than \$40 per capita."—SMITH, *Ibid.*, p. 683. Why is there such a marked difference in the foreign trade of these two communities? Can you judge the relative economic well-being of the inhabitants of these communities from these facts? Explain.

11. *The Annalist*, January 17, 1916, estimated our foreign trade for 1915 at \$5,350,000,000, and our home trade for the same year at \$507,000,000,000. It was also estimated that "all of our foreign commerce since the Civil War made but one-fifth of the home trade in the year 1915." Why is the volume of our foreign trade so small relative to our domestic trade? On the basis of these figures estimate our total trade per capita; per family of five.

12. "The citizens of the United States have invested less than one per cent of their wealth abroad while the citizens of England have made foreign investments amounting to a much larger percentage of their wealth." Account for this difference. May our foreign investments be expected to increase? Explain.

## IV.

### ECONOMIC CONCEPTS.

#### A. ECONOMIC ACTIVITY.

1. Have you ever engaged in economic activity? If so, what motive, or motives, prompted you to do so?

2. Do you expect to engage in economic activity after leaving college? If so, from what motives?

3. Make a list of the motives to business activity that perhaps characterize (*a*) the student canvasser; (*b*) the college graduate entering a profession; (*c*) a manufacturer; (*d*) an actor; (*e*) an unskilled street laborer.

4. What motives to business activity are most worthy; least worthy?

5. Explain the meaning of the expression "business is business." Should "business" be "business"?

## B. ECONOMIC GOODS AND THEIR VALUE.

6. "If I had these shells back home I could get good money for them, but to these people they are worthless." Account for this condition.

7. "Let us bottle this water and sell it, thereby waxing rich." Under what conditions would this be possible?

8. "A thing may have value and not be useful: e.g., an old stone prized by a collector." Point out the error.—T

9. "A horse is no wealth to us if we cannot ride, nor a picture if we cannot see, nor can any noble thing be wealth except to a noble person."—RUSKIN, *Munera Pulveris*, p. 25. Do you agree? Discuss the significance of the statement.

10. Are the following economic goods: sunshine, a good disposition, fresh air, water in Lake Superior, the skill of a surgeon, the services of a surgeon, whisky, old postage stamps?

11. "Art Smith, the aviator, receives \$1,000 per day for his flights."—A news item. Why do his services command a price so many times larger than that paid for the services of a University professor?

12. The pelt of a chinchilla—a piece of fur about the size of a man's hand—sells for \$70. Account for this fact.

### C. PRODUCTION AND CONSUMPTION

13. Adam Smith referred to household servants as “unproductive laborers.” Show that servants are productive. What do they produce? Give some justification for Adam Smith's terminology.

14. “The only real producers are the miners, lumbermen, and farmers; for they are the only ones who add something to the total wealth.” Show that there is no essential difference in the contribution of the farmer, the miller, the baker, the grocer, and the delivery man.—T.

15. “Let us do away with all these non-producing parasitic middlemen.”

- a. Name three or four classes of middlemen.
- b. Show that these middlemen are producers.

16. Is the teacher a producer? What does he produce? Answer the same question in regard to a cook; a laborer in a chair factory; a chair manufacturer.

17. Are the majority of University students producers or parasites? Explain.

18. If one is not a producer, how can he get economic goods by which to live?

19. An automobile may be either a producer's good or a consumer's good. Illustrate.

20. "There is not a real antithesis between production and consumption. Production goods are merely consumption goods a little less ripe." "Yes, but it is of the greatest importance to the individual and to society that the difference between these two classes of goods should be clearly recognized." Discuss the validity of the second quotation.

21. A country inn-keeper hires a man to cripple the automobiles of the passers-by. Is this man a producer?

22. "The car company was not responsible for the accident, but I got \$800 damages for my client. I kept \$400."—A lawyer. Did the lawyer render productive services in pleading this case? Discuss fully.

23. Mention several laws that prohibit predatory production.

24. Suggest forms of predatory production, now allowed, that should be prohibited by law.

**D. ECONOMIC LAW.**

25. "The wage of labor tends to approximate the standard of living."

"Every man should be paid a living wage."

"Employers shall not pay laborers less than \$5.00 per day."

*a.* May these statements be said to be laws? If so, specify the kind of law which each exemplifies.

*b.* What conflicts, if any, exist, or may exist, between these statements?

26. "A law, limiting the rate of interest to six per cent in western Canada, would be opposed to economic law and would thus be doomed to fail." Explain what is meant. Is it possible that the position taken is sound?

## V.

### CONSUMPTION OF WEALTH.

1. Illustrate the law of diminishing utility from your own experience.

2. "Eat, drink, and be merry, for to-morrow we die." Does this suggest a characteristic of economic wants? Does this characteristic change as a people become more highly educated? Explain and illustrate.

3. Why does the clerk say to the hesitating customers, "They are wearing this now"? Is it regrettable that such remarks influence us, at least many of us? Discuss.

4. Let the following schedule represent the demand in a given market:

| DEMAND |         |    |          |       |    | PRICE |    |    |                  |
|--------|---------|----|----------|-------|----|-------|----|----|------------------|
| 1,000  | bushels | of | potatoes | would | be | taken | at | 55 | cents per bushel |
| 1,100  | "       | "  | "        | "     | "  | "     | "  | 54 | " " "            |
| 1,200  | "       | "  | "        | "     | "  | "     | "  | 53 | " " "            |
| 1,300  | "       | "  | "        | "     | "  | "     | "  | 52 | " " "            |
| 1,400  | "       | "  | "        | "     | "  | "     | "  | 51 | " " "            |

With this demand schedule, price will be 52 cents

if there are 1,300 bushels of potatoes for sale at each of the prices indicated. If the supply offered for sale at these prices were changed to 1,100 bushels, what price would prevail? Could it be said that demand had changed? If not, suggest a change in the schedule that will indicate a change in demand.

5. Construct two schedules similar to the one in the preceding problem, one showing the demand to be more elastic and the other showing it to be more inelastic than the demand there indicated.

6. Formerly, an expert cabinet maker could be found in almost every locality. Why is this not true to-day? This change is in accordance with what economic principle? By just what process is our industrial life made to conform to this principle in this case? Mention other similar manifestations of this principle.

7. Illustrate uneconomical consumption.

8. A Des Moines surgeon spent \$3,000 in building a wall around his back-yard. Discuss the propriety of this expenditure.

9. A.: "Enormous amounts of social wealth are destroyed each day in the consumption of candy, ice cream, tobacco, liquor, et cetera."

B.: "Yes, and similar amounts are destroyed in consuming bread, meat, and potatoes."

Discuss the merits of this suppositious controversy.

10. The servant class in the Philippine Islands greatly resented the displacement of the Spanish by the Americans since the latter did not employ nearly so many servants.

a. Was this a hardship to servants?

b. Argue that the Filipino laborers as a whole did not lose by this economy of the Americans.

c. Show that this economy in servants may be expected to have benefited Filipino laborers.

11. Customer: "I cannot afford to pay \$5 per lens for invisible bifocal glasses, when I can get cemented bifocals which are just as serviceable, although they do not look so well, for \$1.25 per lens."

Dealer: "Nonsense. You pay \$5 for a pair of shoes to put on your feet. Surely your eyes are much more important than your feet."

a. Which is the better economist?

b. Discuss the economic principle involved.

12. A public school text-book company's exhibit at the Panama Exposition contained a card made up in part as follows:

The American people spend each year:

|                          |               |
|--------------------------|---------------|
| For public schools ..... | \$483,000,000 |
| For text-books .....     | 18,000,000    |
| For chewing gum .....    | 25,000,000    |
| For candy .....          | 135,000,000   |
| For soft drinks .....    | 325,000,000   |
| For tobacco .....        | 410,000,000   |

- a. What argument is implicit in this statement?
- b. Can we conclude from these facts that our text-books do not cost us too much? What should we pay for them?

## VI.

### PRICE.

#### A. INTRODUCTION—PRICE TERMS.

1. *a.* Why do we have prices set on goods and services? Is this really necessary?

*b.* Why do certain goods and services demand very high prices while other goods and services command very low prices, or no price at all?

*c.* Why should the economist study price?

2. “All the units of a good have the importance—take the value—of the least wanted unit.”

*a.* Why is this true? Illustrate.

*b.* Has this statement any relation to the marginal utility theory of value? Explain.

*c.* May the buyer with the least want, as measured by price offer, have the keenest desire?

3. “Marginal utility does not determine value, it only measures value.” Do you agree?

4. Explain the so-called paradoxes of value. They are as follows:

*a.* A more useful article, like bread, is less valuable than a less useful article, like diamonds.

*b.* A most useful article, like air, may have no value at all.

*c.* A part is sometimes more valuable than the whole; for by destroying a part, the remainder is often worth more than the whole.

5. Suppose that a Crusoe looked on his umbrella as filling a utility to him which he estimated at \$10. Suppose, further, that he could make another just as good with five days' labor and that he estimated the disutility of a day's labor at \$1.

*a.* What is meant by the last clause?

*b.* Is it reasonable to estimate the disutility of a day's labor in such a way?

*c.* What value would Crusoe probably set on the umbrella?

*d.* What would determine that value—utility or cost?—T.

6. Illustrate from your own experience the balancing of disutility against utility in the case of: (*a*) attending a public lecture; (*b*) calling on a friend; (*c*) working for money.

7. In connection with each of the three cases above, consider Seager's statement that the existence

of a surplus of utility above disutility makes life worth living.

8. Show that in each of the above cases the disutility involved will vary with the circumstances of the individual.

9. "If I buy that hat I will then have to have a new coat, new furs, and new shoes." Will the price of the coat, furs, and shoes help to determine the price that will be paid for the hat? Are cases involving the principle of complementary price determination of frequent or of rare occurrence? Give other illustrations of this principle.

10. *a.* "A general rise in exchange values is impossible." Explain.

*b.* How, then, can there be a general rise in prices?

11. "Those who speak of diamonds having no use-value, and of food having infinite use-value, must be drawing their ideas, not from the life of men but from the life of cattle."—SMART, *Theory of Value*, p. 22. Explain. Why is the price of bread low and the price of diamonds high?

12. As a result of a state anti-tipping law the bootblacks of Des Moines have increased the price of shines from five cents to ten cents.

*a.* Should you expect them to lose any customers?

If so, by what economic term may these persons be designated?

*b.* If the price is later changed back to five cents, a few bootblacks may be expected to drop out of the business. What economic term may be used to designate these persons?

*c.* Is it possible that the most efficient men, if any, would drop out? Explain.

## B. FIXED SUPPLY.

13. If the units of a particular good offered for sale may not be increased in amount, the good is said to be a fixed supply good.

*a.* Are any of the goods offered for sale in the stores of your city fixed supply goods? Illustrate.

*b.* Do the works of persons not now living belong to this class?

*c.* Is land a fixed supply good?

*d.* Many goods that are normally not fixed in supply may, temporarily, belong to this class. Illustrate.

*e.* The important feature of a fixed supply good, for price purposes, is that cost of production has no influence in determining price. Show that cost does not influence the price of fixed supply goods.

*f.* Under competition, at what point will the price per unit of a fixed supply good be set?

14. *a.* Construct a supply schedule, similar to the demand schedule in problem 4, section V, showing 1,200 bushels of potatoes offered for sale at each of the prices there indicated. It will begin as follows: At 55 cents, 1,200 bushels of potatoes are offered for sale.

*b.* Combine the data in these two schedules into one, similar to the schedule in problem 30 of this section.

*c.* Construct a supply and demand schedule for twenty available business sites; for ten works of art by an artist no longer living.

15. "The normal price of sandwiches is five cents, but the present market price is \$1."

*a.* Explain the meaning of the first clause.

*b.* Why is the normal price five cents?

*c.* Account for the present market price.

16. One hundred ladies' suits which are now out of style remain unsold.

*a.* What will determine the price that will tend to be set upon these if the stock is divided among three competing merchants?

*b.* Will the cost that was incurred in producing these, or the cost that would be incurred in producing others like them, determine the price? Will it influence the price? Explain.

17. By what process is the price of Lincoln's autographs determined? How does this differ from the process of setting a price upon the autographs of the present President of the United States, if he should wish to undertake the work of furnishing autographs as a by-product of his official duties?

18. There are a fixed number of building sites within a mile of the University campus.

a. What will determine the price of these sites?

b. If the number of sites available for the use of university people should be increased through the development of transportation facilities, what effect will this have on the price of nearby sites? May the cost element influence the price of the new sites? Explain.

19. A.: "Land is by far the most important fixed supply good."

B.: "I do not see how you can call land a fixed supply good when transportation facilities and other improvements may make more land available in any market."

A.: "Yes, but compared with the large bulk of our goods the supply of land in any market can increase but very slowly."

C.: "Yes, but of more significance is the fact that land once in use tends to remain in use permanently, at least so long as it bears any rent, while other goods wear out and must be replaced."

A.: "Which means that the supply is fixed—somewhat rigidly from the side of additions to the supply and quite rigidly from the side of deductions from the supply."

a. Do you agree with A. or B.?

b. Is C.'s point important?

c. If, due to an increased demand, the price of safety razors should increase fifty per cent, would the price remain at the new figure, assuming demand to remain at the new point? Explain.

d. If, due to an increased demand, the rent of sites in your city should increase fifty per cent, would rent remain at the new figure, assuming demand to remain at the new point? Explain.

e. If a tax of fifty per cent of the selling price should be placed upon safety razors, what effect would this tend to have upon the price of these goods? Explain.

f. If a tax of fifty per cent of the yearly rental should be placed upon business sites, what effect would this tend to have upon the rent derived from these sites? Explain.

20. Formulate a principle for the determining of price in the case of a good the supply of which is fixed.

### C. VARIABLE SUPPLY GOODS.

#### (1) *The Influence of Cost.*

21. "The units of a variable supply good flow as a stream through the market place."

a. Is this true of articles of clothing, food, fuel, and furniture? Is it true of the equipment and raw materials of manufacture? Is it true of dwelling houses?

b. If the market supply is made up of constantly changing units, what relation will tend to exist between price and cost? Why?

c. Does the length of time that must elapse before this relation is brought about differ in the case of different goods? Does it differ greatly? Why or why not? Give several illustrations.

22. The prices of automobiles have been falling for several years. How do you account for this? How much lower will they go?

23. A shoe firm in Minneapolis posted the following "special sale" schedule on its walls:

| LADIES' SHOES            | MEN'S SHOES              |
|--------------------------|--------------------------|
| \$5.00 values for \$3.75 | \$5.00 values for \$4.00 |
| \$4.00 values for \$3.00 | \$4.00 values for \$3.20 |
| \$3.00 values for \$2.25 | \$3.00 values for \$2.40 |

Upon being asked the reason for the difference in the two price schedules, the manager said: "There is more difference between the wholesale and retail prices of ladies' shoes than of men's shoes." Account for the fact stated in the quotation.

24. A residence is taxed \$60. \$20 of this amount represents the tax upon the building, and \$40 the tax upon the lot. Under the operation of the principles of price, the \$20 house tax will be paid by the tenant in the long run, while the \$40 land tax will be paid by the landlord. Explain how it is that things come out this way.—(T.)

(2) *Goods Produced at a Uniform Cost per Unit.*

25. *a.* If wooden chairs can be produced at a cost of thirty cents per chair, including necessary profit, regardless of the quantity produced, what should you expect to be the price of such a chair? Why neither more nor less?

*b.* If the manufacturers should be taxed ten cents for each chair produced, what effect would this tend to have on the price of such chairs?—(T.)

26. Suggest articles that you should expect to be produced under constant, that is, uniform cost, regardless of the amount produced.

27. Select a uniform cost good and construct a supply and demand schedule. What price will be set? Prove that a change in demand will not alter price. Prove that a change in cost as a result of levying a tax, or for any other reason, will result in a change in price corresponding to the change in cost.

(3) *Goods Produced at an Increasing Cost per Unit.*

28. "We may expect the price of meat to steadily increase." Why so?

29. Suggest several articles the production of which you should expect to entail greater cost per unit as the amount produced is increased. Select an increasing cost good and construct a supply and demand schedule. What price will be set?

30. Let the following schedule represent the silver market:

| SUPPLY   | PRICE | DEMAND   |
|----------|-------|----------|
| MIL. Oz. | CENTS | MIL. Oz. |
| 215      | 59    | 185      |
| 210      | 58    | 190      |
| 205      | 57    | 195      |
| 200      | 56    | 200      |
| 195      | 55    | 205      |
| 190      | 54    | 210      |

With reference to this market, answer the following questions:

- a. What price will be set?
- b. How many ounces will be produced?
- c. If a tax of two cents is levied on each ounce produced, what price will be set? Prove.
- d. Propose a tax that will not affect price, and that will, therefore, not be shifted? Just why will such a tax not be shifted?
- e. Prove that it is a matter of indifference in the case assumed in this schedule whether a tax is levied upon producers, as in "c," or upon consumers.
- f. What kind of a good is silver here represented to be?

(4) *Goods Produced at a Decreasing Cost per Unit.*

31. a. What is meant by a decreasing cost good?
- b. Suggest goods that are produced under conditions of decreasing cost.

c. Construct a supply and demand schedule for a decreasing cost good. See problem 45 of this section.

32. "A decreasing cost good has in it the germs of monopoly." "Yes, and the germs are very active, too." Is this more true of a decreasing cost good than of an increasing cost good? Explain.

(5) *Joint Cost Goods.*

33. "The skins and seeds (of tomatoes) that were formerly wasted are now utilized, the former as a stock feed and the latter as a source of oil."—Report of U. S. Department of Commerce. What effect will this utilization of by-products tend to have upon the price of tomatoes?

34. What would tend to be the effect upon the price of beef of a customs duty on the import of hides high enough to discourage their importation? —(C.)

35. a. If a large part of the people who now make beef and pork a part of their diet should permanently discontinue the use of these foods, what effect would this change tend to have on the price of bone fertilizers? Explain fully.

b. This change in the price of bone fertilizer, by affecting the price of the fertilizer which is a by-

product of the fish industry, would affect the price of fish. In what way?

36. A competitive system of railway rates would establish lower freight rates, per ton mile, on commodities going from our Atlantic coast westward, than on commodities of similar value going from our Pacific coast eastward. Explain why, according to the doctrine of normal price for joint products.—P.

#### D. PRICE DETERMINED BY CAPITALIZATION OF INCOME.

37. If a certain site yields \$400 net rent per year and the market influences have fixed the rate of capitalization for land income at five per cent, the price of the site will be \$8,000.

*a.* What is the computation process by which the price is thus fixed at \$8,000?

*b.* If a tax of \$100 per year be imposed upon this site, what will the net income from the site then be? The price of the site?

*c.* Will the landlord not raise his rent to \$500 and force the tenant to pay the tax? Explain carefully.

38. What is the market value of a perpetual annuity of \$300 if the rate of interest on such investments is four per cent? Three per cent? Six per cent?

39. A certain automobile which is hired out, regularly yields its owner a clear income over all expenses of about \$300 per year. With interest at six per cent, this fact would cause the car to have what market value? Is this a reasonable problem?—T.

40. If the rate of interest earned on government bonds is commonly 1.9 per cent, what price will be paid for a two per cent government bond?—T.

41. "A land tax imposed a generation or more ago is burdenless." Why is this true?

42. The following four pieces of property each yield an income of \$7 a year; they sell as follows: (a) a share of Pennsylvania Railroad stock, \$140; (b) a share of stock in an oil company, \$50; (c) a piece of land in New York, \$200; (d) an annuity with only two years to run, \$13. Explain the difference in these prices.—C.

#### E. MONOPOLIZED GOODS.

43. Assume the following demand schedule:

| PRICE  | DEMAND      |            |
|--------|-------------|------------|
| \$4.00 | (A) 175,000 | (B) 20,000 |
| 3.00   | 240,000     | 100,000    |
| 2.00   | 260,000     | 300,000    |
| 1.00   | 280,000     | 700,000    |
| .50    | 300,000     | 1,000,000  |

*a.* With a fixed supply of 300,000, what price will be set when the supply is controlled by competing sellers if demand is as in (A); if as in (B)?

*b.* If the sellers combine, what price will be set with demand (A); with demand (B)?

*c.* Will combination prove most profitable under demand (A) or demand (B)?

*d.* Formulate a general principle for monopoly price on the basis of the conclusion reached in *c.*

*e.* If a fifty-cent tax be levied upon this good, what will be the price under monopoly in (A); in (B)?

*f.* Formulate a general principle relating to the shifting of a monopoly tax on the basis of the conclusion reached in *e.*

44. Change part *a* of the above problem to read—If any amount can be produced at a cost of fifty cents per unit—and answer above questions.

45. Let the following schedule represent the market for a certain grade of oil:

| SUPPLY<br>MIL. GAL. | PRICE<br>CENTS | DEMAND<br>MIL. GAL. |
|---------------------|----------------|---------------------|
| 60                  | 7              | 100                 |
| 100                 | 6              | 150                 |
| 150                 | 5              | 200                 |
| 200                 | 4              | 300                 |
| 300-400             | 3              | 400                 |

- a. Under competition, what price will prevail?
- b. Under monopoly, what will be the price?
- c. What dilemma confronts the monopolist when he is controlling a decreasing cost good?
- d. What will be the effect upon price if a one-cent tax should be levied upon the amount produced?

46. On the basis of the above schedule, show how the monopolist would gain from being able to sell at different prices.

47. "The fear of a decrease in sales limits the rise of monopoly price." State the various reasons for a decrease in the demand for monopolized products due to a rise in price.

48. "One hears a good deal of nonsense about the power possessed by a public utility company to rob the public. The company can get no more than the public is willing to pay. If the public think the price too high, they will not pay it; and the company will be forced to put the price at what the public is convinced is a fair price."

a. What is a fair price as generally understood by the public?

b. Is there good reason to expect that the companies that furnish public utilities will give service

for fair prices, in the absence of special contract or government control? Why?—T.

49. "This company has voluntarily reduced the price of gas. We found that we could furnish it at a lower figure."—An officer of a gas company.

*a.* Are you inclined to accept the second statement as an explanation of the company's action? Explain.

*b.* Show definitely how self-interest may have prompted the price reduction.

#### E. MISCELLANEOUS PROBLEMS IN PRICE.

50. "Problems in price are usually based on the assumption that buyers and sellers have a keen desire to secure prices that are selfishly most desirable, and that they are able to secure the most favorable prices possible. This assumption is not always true. Custom, for example, . . ."

*a.* Complete the quotation.

*b.* Suggest other factors that enter to vitiate the above assumption.

*c.* Give illustrations to prove the contention here made.

*d.* Generally speaking, is the above assumption true?

51. "Prices are not determined on nicely adjusted scales." Explain the meaning of this quotation. Do you agree?

52. A lady paid \$25 for an old mahogany chair that the dealer had offered to sell for fifty cents. Is it possible that she would not have bought the chair if it had been priced at fifty cents? If so, did she sacrifice \$24.50 in this case, or did she get an equivalent of the amount paid? Does this help to explain the prices charged by those who cater to the "best trade"? Are certain prices that are set for the "best trade" a burden to the less wealthy, or poor? Consider especially physicians' and dentists' charges as contrasted with café prices.

53. "Shifting of taxation will take place regularly in proportion as the following causes are present: (1) the consciousness of unequal distribution of the burden of taxation, (2) the wish to rid oneself of the unequal burden, (3) the pecuniary ability to accomplish this purpose."—COHN, *The Science of Finance*, sec. 250.

a. What element is introduced here which is usually not taken into account by economists in considering the factors that determine price?

b. Should this element be included? If so, what weight should be given it?

54. "If the land taxes are levied according to acreage under cultivation, or according to unit of product, the effect of the tax is quite different from the effect when the tax is levied according to the rent, or market price of the land." Explain on the basis of price principles.

55. "An increase in the demand for cottonseed oil will not permanently benefit cotton growers."

- a. Give supporting argument.
- b. Argue that present cotton producers will gain.
- c. In either case, what will tend to be the effect upon the price of cotton cloth?

56. The exclusive right to the use of a box in the Metropolitan Opera House, New York, changed hands last year at a price of \$120,000. The cost of producing that section of the theater could not have been more than \$10,000. Argue from principles to explain the discrepancy between the cost and the price in this case.—P.

57. "It is utterly impossible that silver should long remain at fifty-five cents an ounce, when three or four of the biggest mines can produce it at a cost under thirty cents; for, as everybody knows, the price of anything is, in the long run, the same as the cost of producing it." Is that sound?—T.

58. Commodity X is imported into country A from country B; while countries C, D, and E also produce X, and countries F, G, H consume it as well as country A.

*a.* What is the effect of the imposition of an import duty levied in A

1. Upon the price of X and A?

2. Upon the price of X and B?

3. Upon the price of other commodities in A and B?

*b.* Assume the same conditions, excepting that instead of being a competitive field of consumption, A has an effective monopoly of the consumption of X. What is the effect upon prices as above?

*c.* Assume that there is competition in the field of consumption as in *a*, and that B has a monopoly of the production of X. What is the effect upon prices as above?—Toronto University Examination Lists.

59. “In college towns, a large number of families really pay nothing for the support of state or local government since they reside there only temporarily, live in rented houses, and own no property which the assessor can reach.” Examine.—T.

60. If the government, wishing to tax “luxury,” should levy a tax of \$1 upon each person occupy-

ing a box at the theater, the tax to be collected by the theater when it sells tickets, what effect would this have upon the prices of box tickets? Would the theaters add \$1 to the prices of the tickets, as the government intended; or would they add a fraction of \$1 to the prices; or would they leave the prices as they now are, thus themselves bearing all of the tax?

61. "The imposition of a new tax on a piece of land is equivalent to a partial confiscation of said land; the removal of a long-standing tax is equivalent to a free gift to the owner of said land." Explain fully.—T.

62. Certain reformers urge that taxes on buildings be decreased, or wholly removed, and taxes on land be correspondingly increased. What effect would this tend to have on:

- a. The rent of city lots? Explain.
- b. The selling price of city lots? Explain.
- c. The rent of city buildings? Explain.
- d. The selling price of city buildings? Explain.
- e. Why do reformers propose this change in tax policy?

63. "From the economic standpoint, the right price is the one which brings about a proper regu-

lation of economic action." Explain and defend that statement.—T.

64. "The general principle is that the tax inflicts more loss on either party, the less the elasticity of that party's demand or supply; other things including the other party's elasticity, being the same."—EDGEWORTH, "The Pure Theory of Taxation," *Econ. Jour.*, 7:48. Support this statement.

65. "No doubt there is much to be said in favor of giving legal recognition to monopoly in various fields of economic activity, and trusting to the legal regulation of the prices of the commodities or services supplied by these monopolies to insure fair treatment for the general public. But this policy is one which should be entered upon only after long and careful consideration. Anyhow, we should resort to said policy only when the maintenance of effective competition becomes manifestly impossible. For (1) it is extremely difficult by legal regulation to fix upon prices which are fair to both producers and consumers, and (2) we need a body of freely determined prices to guide our employment of the productive resources at our disposal."

a. Support the contention made in the clause of the last sentence which is marked (1).

b. Support that contained in (2).—T.

## VII.

### PRODUCTION: LAND.

#### A. WHAT IS LAND?

1. *a.* What is land?

*b.* Is the fertility in the soil part of the land?

*c.* Should fences be classed as land? Tile drains? Trees in a young orchard? Trees in a wood lot?

*d.* Does difficulty of making distinctions in particular cases warrant the conclusion that such distinctions are useless? Illustrate.—(T.)

2. “The supply of land is fixed.” “The supply of land is elastic. Witness the great increase in the supply of land during the past century.” Discuss the point at issue.

3. What are the chief points of difference between land and other goods? These differences furnish the basis for what tax proposal?

#### B. DIMINISHING RETURNS.

4. Why do not farmers confine their work to one acre of land? Why is it socially important to increase the available stock of land by improvements such as drainage and irrigation projects, and transportation facilities?

TABLE OF COMBINING PROPORTIONS\*

| I            | II         | III        | IV     | V                                                 | VI                        | VII                   | VIII                  | IX                      |
|--------------|------------|------------|--------|---------------------------------------------------|---------------------------|-----------------------|-----------------------|-------------------------|
| No. of comb. | Amount A's | Amount B's | Output | Increase of out-put if propor. to increase of B's | Actual increase of output | Average output in A's | Average output in B's | Marginal product of B's |
| 1            | 20         | 2          | 2      | ..                                                | ..                        | .1                    | 1                     | 1                       |
| 2            | 20         | 3          | 6      | 1                                                 | 4                         | .3                    | 2                     | 4                       |
| 3            | 20         | 4          | 16     | 2                                                 | 10                        | .8                    | 4                     | 10                      |
| 4            | 20         | 5          | 35     | 4                                                 | 19                        | 1.7                   | 7                     | 19                      |
| 5            | 20         | 6          | 84     | 7                                                 | 49                        | 4.2                   | 14                    | 49                      |
| 6            | 20         | 7          | 126    | 14                                                | 42                        | 6.3                   | 18                    | 42                      |
| 7            | 20         | 8          | 156    | 18                                                | 30                        | 7.8                   | 19.5                  | 30                      |
| 8            | 20         | 9          | 179    | 19.5                                              | 23                        | 8.9                   | 19.8                  | 23                      |
| 9            | 20         | 10         | 200    | 19.8                                              | 21                        | 10                    | 20                    | 21                      |
| 10           | 20         | 12         | 236    | 40                                                | 36                        | 11.8                  | 19.7                  | 18                      |
| 11           | 20         | 14         | 266    | 39                                                | 30                        | 13.3                  | 19                    | 15                      |
| 12           | 20         | 16         | 290    | 38                                                | 24                        | 14.5                  | 18.1                  | 12                      |
| 13           | 20         | 18         | 312    | 36                                                | 22                        | 15.6                  | 17.3                  | 11                      |
| 14           | 20         | 20         | 330    | 34                                                | 18                        | 16.5                  | 16.5                  | 9                       |
| 15           | 20         | 22.2       | 346    | 36                                                | 16                        | 17.3                  | 15.6                  | 7.2                     |
| 16           | 20         | 25         | 362    | 43                                                | 16                        | 18.1                  | 14.5                  | 5.7                     |
| 17           | 20         | 28.5       | 380    | 50                                                | 18                        | 19                    | 13.3                  | 5                       |
| 18           | 20         | 33.3       | 393    | 63                                                | 13                        | 19.6                  | 11.8                  | 2.6                     |
| 19           | 20         | 40         | 400    | 78                                                | 7                         | 20                    | 10                    | 1                       |
| 20           | 20         | 44.4       | 398    | 44 —                                              | 2                         | 19.9                  | 8.9                   | — 5.5                   |
| 21           | 20         | 50         | 393    | 50 —                                              | 5                         | 19.6                  | 7.8                   | — 1                     |
| 22           | 20         | 57.1       | 360    | 56 —                                              | 33                        | 18                    | 6.3                   | — 4                     |
| 23           | 20         | 66.6       | 280    | 60 —                                              | 80                        | 14                    | 4.2                   | — 8                     |
| 24           | 20         | 80         | 140    | 56 —                                              | 140                       | 7                     | 1.7                   | — 5                     |
| 25           | 20         | 100        | 80     | 35 —                                              | 60                        | 4                     | .8                    | — 3                     |
| 26           | 20         | 133.3      | 40     | 26 —                                              | 40                        | 2                     | .3                    | — 1                     |
| 27           | 20         | 200        | 20     | 20 —                                              | 20                        | 1                     | .1                    | — 3.3                   |

\* This table, together with a few of the questions based on it, is taken substantially, with some adaptations, from Taylor's *Principles of Economics*, 1914, ch. 4.

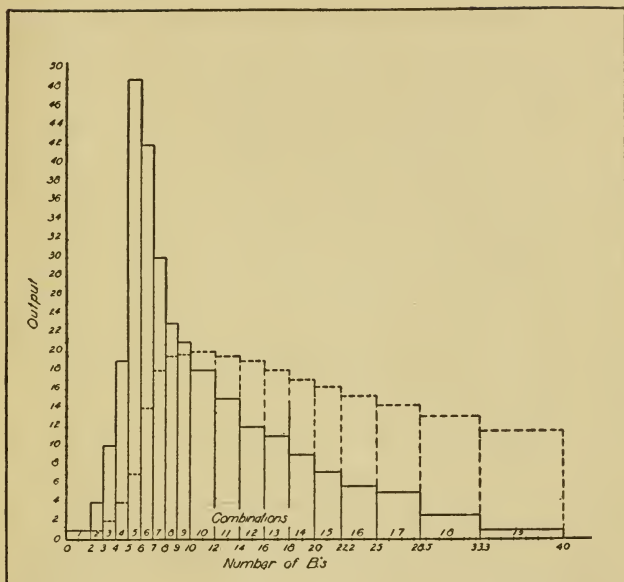


DIAGRAM OF ABOVE TABLE

Continuous line—Rectangles measure actual increase in output at each combination (col. vi).

Broken line—Rectangles measure increase in output if increase were proportional to increase in B's (col. v).

5. The foregoing table shows the possible results from taking a given quantity of land (A) and combining with it, using upon it, a gradually increasing number of days of labor (B). It may, of course, also be used to represent the application of varying units of coal to a furnace, of labor to a factory, or

of any variable factor to a fixed factor. Note particularly the second, third, and fourth columns from which the other columns are derived.

*a.* If A's represent acres of land and B's days of labor, what product will result from applying four days of labor to the twenty acres of land? If the days of labor are increased one-fourth, from four to five, what increase in output will result? What would have been the increase in output if the increase had been proportionally equal to the increase in the days of labor, that is, if the output had increased one-fourth?

*b.* During which of the combinations does an increase in B's lead to an increase in output that exceeds the increase in output that would have resulted if the increase in output had been proportionally equal to the increase in B's?

*c.* During which of the combinations does an increase in B's lead to an increase in output that is less than the increase in output that would have resulted if the increase in output had been proportionally equal to the increase in B's?

*d.* Column VIII, derived from columns III and IV, shows the average output per B in each combination. During which of the combinations does the average output per B increase if more B's are added?

*e.* During which of the combinations does the

average output per B decrease if more B's are added?

f. During which of the combinations does the output per A increase if more B's are added?

g. The combinations suggested in *b* mark the stage of *increasing returns*. Using the term "changing factor" instead of "B," state what is meant by saying that an industrial unit—a factory, a furnace, or a parcel of land—is in the state of increasing returns.

h. The combinations suggested in *c* mark the stage of *diminishing returns*. What is meant by saying that land is in the stage of diminishing returns?

i. "The stage of diminishing returns is not marked by a decrease in total return; nor is the beginning of the stage of diminishing returns necessarily at the point where return per addition of changing factor becomes less." Show that this is true. Then why use the term *diminishing returns*? Suggest a better term.

j. When would days of labor applied to a strawberry bed show the results indicated beyond combination 19?

k. If A's were free and B's were not, which combination would you use, 9 or 19? If B's were free and A's were not? If neither were free, within what combinations would you work?

*l.* If A's represent acres of land and B's units of labor, which combination would you use in north-western Canada? In central Illinois?

*m.* "Extensive farming means the working of land just at the beginning of diminishing returns, combination 9."

"Intensive farming means the working of land in the stage of diminishing returns." Do you agree? Explain.

*n.* Show that it will never be profitable to work in the stage of increasing returns if it may be avoided.

*o.* Column IX shows the amount of output added by each additional B. If you were working at the 16th combination, what could you afford to pay, in terms of output, for another B? If all land is being farmed, say, in the 11th combination, what wage will be paid, assuming A's to be acres and B's laborers? Why neither more nor less?

6. "As an industrial society, we should seek to work just at the beginning of the stage of diminishing returns; but individual landowners will find it most profitable to work at the point of maximum output if wages are low enough to warrant it."

*a.* Prove the first statement.

*b.* As a society, how can we keep out of the later combinations?

*c.* Prove the second statement.

d. How low must wages go to warrant the landowner in using the 19th combination in the above table? What rent will the landlord enjoy at this combination assuming that there are no costs other than labor cost?

e. What wage will warrant the landlord's using the 11th combination but not the 12th? How much rent will be received at the 11th combination?

f. What is the average product per laborer at the 11th combination? What fractional part of the per capita product is wages? What part is rent?

g. Answer similar questions for the 17th combination.

7. "When one gets into the stage of decreasing returns he begins to lose money." Do you agree?

8. "With increasing numbers, human beings must find the food problem progressively a more serious problem; in its effect upon per capita production of commodities, overcrowded land is the same thing as poor land."—DAVENPORT, *Economics of Enterprise*, p. 180. Discuss the validity of this statement.

9. "The law of diminishing returns presupposes no technical changes in method." Show the necessity for this limitation.

10. "It is of course true that industry, especially agricultural industry, is subject to the law of diminishing returns. Nevertheless, history shows very plainly that, as population has increased from a few millions to more than a billion, the supplying of the economic needs of society has become not more difficult but much easier." Show that the two statements are not contradictory.

11. "If it were not for the law of diminishing returns, every farmer could get rich simply by doubling frequently the outlay on his business." This statement would not be made by a person who knew exactly what is meant by the law of diminishing returns. Explain why.—(T.)

12. "The formation of boys' corn clubs is an excellent thing. Some of the boys who belong to these clubs have, by devoting their time to a single acre, raised upon it as much as two hundred bushels of corn. This sort of intensive cultivation shows the possibilities of American agriculture, and should be encouraged."

a. Under what conditions is intensive agriculture economical?

b. Is America in position to practice intensive agriculture?

c. What fundamental economic law is overlooked in the above question?—T.

## VIII.

### PRODUCTION: LABOR.

1. Is the effort of the following to be called labor: (a) a teacher; (b) a college football player; (c) a professional baseball player; (d) an opera singer; (e) a preacher; (f) a Sunday School teacher; (g) a United States Senator?

2. Define the economic term *labor*.

3. What do you understand by the expression: "the cost of labor expressed in human terms"?

4. Is any labor pleasant? Is a large degree of it pleasant? Should it all be pleasant if possible? What kind is most pleasant? Least pleasant? Is the pleasure to be derived from work conditioned upon the aptitude of the worker for his particular work? If the worker feels that his work is worth while, will he derive more pleasure from it than if he regards it as only a means of getting an income?

5. "We must seek to make labor more efficient."

"We must strive to have the largest sum total

of human satisfaction. This may call for less rather than for more work,—for less, rather than more, high-speed efficiency.”

a. What possible difference in viewpoint is indicated by these statements?

b. With which viewpoint are you most in sympathy?

c. May the two statements be reconciled? Explain.

6. “Specialization is necessary to a high degree of efficiency.”

a. Enumerate the many advantages of having each person engage at some one task. Are there any disadvantages in such a procedure? Explain.

b. Show that the degree to which one can devote himself to some one occupation depends upon the extent of the market, and that the degree to which one can devote himself to some one task within an industry depends upon the size of the plant. Does the size of the plant depend upon the extent of the market?

c. May we expect more or less specialization in the future than we have now? Explain.

7. “The steam engine theory of the efficiency of labor maintains, or perhaps implies rather than maintains, that the vigor of the laborer is in pro-

portion to what he consumes.”—TAUSSIG, *Principles of Economics*, p. 97.

a. Evaluate this theory.

b. So far as it is true, what bearing has it on the minimum-wage proposal? Explain.

8. “Opportunity to rise has been a wonderful stimulant to young America.”

a. Explain what is meant. Do you agree?

b. Are opportunities becoming fewer? Explain.

c. If opportunities to rise are becoming fewer, how will the efficiency of labor be affected?

9. “I condemn the present system of industry on the same grounds that I condemn slavery,—it makes the laborer inefficient. Our factory labor, for example, is grossly inefficient.”—A university instructor.

a. Why do so many factory workers refuse to do their best work?

b. Suggest ways of increasing the efficiency of industrial workers.

10. Does compulsory industrial insurance tend to affect the efficiency of labor? Explain.

11. “A display of wealth by the employer’s wife may reasonably be expected to decrease the efficiency of the workmen.”

- a.* Justify this statement.
- b.* Is this statement indicative of a general condition that tends to impair the efficiency of "wage-workers"? Of other employees?

## IX.

### PRODUCTION: CAPITAL.

1. Does labor ever produce without the aid of tools? Give illustrations.

2. "The capitalistic method is a roundabout method."

a. Suggest a direct method of catching fish.

b. Suggest a roundabout method.

c. Why is the roundabout method more efficient?

3. "A tool involves two costs—labor cost and the cost of waiting." Illustrate.

4. How is saving, or waiting, involved in the building of a house? In the buying of a house?

5. What is the "human cost" of having capital? Does this help to explain interest? How?

6. "His strength is his capital." Is *capital* here used in accordance with the economic definition of capital?

7. Give examples of fixed capital; of circulating capital; of specialized capital; of free capital.

8. There are two farm communities, one of which saves, postpones consumption, and devotes energy and products to the production of capital goods, while the other uses productive energy to provide mainly consumption goods.

a. Which of these two will become the stronger?

b. If a similar difference in economic policy prevails in the case of the inhabitants of two nations, which nation will be the more likely to survive the other? Explain.

9. "The end of economic activity is the consumption of economic goods." Then why insist upon the producing of production rather than consumption goods? Answer.

10. Has the automobile increased or decreased the amount of capital compared to what it would have been without it? Argue both affirmatively and negatively. If it is restricting the building of capital, is its existence necessarily regrettable in view of the purpose of economic activity? Explain.

11. "The American people are very wasteful. They spend large sums each year on tobacco, liquor, candy, ice-cream, et cetera."

*a.* Do we as a people have less capital than we would have if we didn't indulge so freely in these things? Explain.

*b.* If the use of these things represents a national loss, does the loss occur when the consumer buys them or at some other time? Explain.

12. Explain in what way the following contribute to the efficient performance of the capitalistic function:

*a.* Postal savings banks.

*b.* Commercial banks.

*c.* Stocks and bonds of small denominations.

*d.* An open stock market for the buying and selling of securities.

## X.

### PRODUCTION: ENTERPRISE.

1. *a.* Is the function of the enterpriser separate and distinct from that of the laborer, capitalist, and landlord?

*b.* Just what is his function?

*c.* Must he have a separate reward as enterpriser? What is this called?

*d.* Can there be economic enterprise without an enterpriser?

2. A, being without available funds, borrows \$1,000 from his uncle to start a grocery store. Who is the enterpriser? What is the economic function of the other?

3. "In plants wherein the workingmen own the business, the place of the *entrepreneur* (enterpriser) is taken by a manager elected by the workmen." What is the fault in this statement?—T.

4. "To be an enterpriser it is not necessary that a man be enterprising." Explain.—P.

5. Why do we say that every stockholder of a corporation is an element in the corporate enterpriser, while a bondholder, who also has capital in the concern, is not?—T.

6. If you were a grocery clerk receiving a salary of \$1,200 per year and an assured income of \$250 from \$5,000 which you possess, should you consent to put your money (\$5,000) into the business and become a partner if you felt reasonably certain of having only about \$1,450 as your yearly share of the returns from the store? On the basis of your answer formulate general principles in regard to the economic function and the economic reward of the enterpriser. Is it possible that other than economic motives might influence your decision in this case? Explain.

7. Not many years ago Mr. W., after some months of painstaking negotiation, induced a number of persons owning certain lands on the Copper Range to join with him in organizing a corporation to build a railroad, open mines, etc.,—Mr. W. putting in some land of his own. For his fee, Mr. W. was to receive a certain number of shares in the stock of the company. Distinguish with explanations the economic rôles played by Mr. W. in this matter.—T.

## XI.

### PRODUCTION: PRODUCTIVE EFFICIENCY.

#### A. CO-OPERATION—SPECIALIZATION.

1. "Specialization is now carried to a far greater degree than it was one hundred, or even fifty, years ago."

a. What inventions have made this possible?

b. What advantages have accrued? What disadvantages?

c. What has been the moving force in extending specialization?

d. Do you expect that it will be carried still further?

2. "It is upon the seacoast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself."—ADAM SMITH, *The Wealth of Nations*, Bk. 1, ch. 3. Account for this fact.

3. "The farmer should sell his produce direct to the consumer and thus eliminate the parasitic middleman."

a. Point out the advantages to the farmer of selling to the middleman.

b. If farmers gain by selling to middlemen, are the middlemen parasitic?

c. What does the term *parasitic* mean in economics?

4. "One should not depend upon others for that which is necessary to his very existence." Do you agree? Mention some worker who depends upon others for everything that he consumes. Is he wise or foolish in doing this?

5. "Only foreign trade can enrich a nation. Trade between sections of the country cannot add to national wealth."

a. Show that your state is increasing its wealth by trading with other sections of the country.

b. Is there any real difference as to the economic gain from internal trade and that from foreign trade?—(T.)

6. "The explanation of the fact that foreign commerce has played such a small part in the business of the American people (normally about one per cent) is no doubt that our own country has offered a market so big that it was unnecessary, in most cases, to seek an outlet for goods elsewhere."—

*The Annalist*, Jan. 17, 1916, p. 85. This explanation is, at best, insufficient; give something better.

7. "It is a shame that we must depend upon foreign co-operation for any good. We should produce what we want or go without."

a. Do you consider it discreditable to us to rely upon the foreigner for certain products? Explain.

b. Some are disposed to see in world-wide co-operation a force making for the spiritual unity of all peoples. Give reasons for this view.

8. Suppose our foreign market showed a permanent new shrinkage of 200 millions of dollars per annum, would this mean that our yearly income would be 200 millions smaller? State the loss in general terms.—(T.)

9. From the *Congressional Record* for May 17, 1909:

"Mr. Aldrich: Assuming that the prices fixed by the reports is the correct one, if it costs ten cents to produce a razor in Germany and twenty cents in the United States, it will require one hundred per cent duty to equalize the conditions in the two countries. . . . And, so far as I am concerned, I shall have no hesitancy in voting for a duty which will equalize the conditions. . . . I would vote for three

hundred per cent as cheerfully as I would for fifty." To what sort of an economic system would such notions, if logically carried out, inevitably lead?—T.

10. Do political considerations influence the question as to the advisability of national specialization? What illustration from our history bears on this question?

11. "The European war has demonstrated the advisability of having our own merchant marine."

a. Give supporting argument.

b. Argue that the value of having ships in an emergency such as that caused by the European war, does not warrant our subsidizing a merchant marine.

12. "Our varied natural resources have made us tolerant of the protective tariff policy." Explain.

## B. LARGE SCALE PRODUCTION.

13. Make a detailed list of the economies that would result from a combination of three grocery stores into one store.

14. If you were to manufacture men's collars, what advantages should you expect to derive from large scale, rather than small scale, production?

15. "Particular cases of extensive advertising prove to be of no cost to anyone, due to the economics of large scale production." Develop an argument, using illustrations, to support this statement.

16. Are principles of large scale production applicable to portrait painting? To photography? To tailoring? To the making of kitchen knives?

17. "It has been learned by the experience of business men that when the individual plant passes beyond a certain size, it ceases to gain in efficiency." DURAND, *The Trust Problem*, p. 69. Why should you expect this to be true?

18. List the disadvantages of large scale production from the standpoint of the consumer; from the standpoint of the workers; from the standpoint of society generally.

### C. COMBINATION OF INDUSTRIAL FACTORS.

19. "The efficient business man pays close attention to overhead expense." Explain meaning.

20. "We can pay only \$1.20 for an eight-hour day, but we will pay thirty cents additional for a nine-hour day." Illustrate concretely how the en-

terpriser is able to pay twice as much per hour for the ninth hour as for the eight hours.

21. The principle involved in the above problem can be used to explain the use of rebates and other forms of discrimination by the railroads in an effort to increase traffic. Explain.

22. From data in the table in section VII, arrange a table for combinations 9-14, including columns I-IV as in the table and on the basis of a cost of \$2 per A and \$5 per B, construct columns as follows:

V, average cost; VI, added cost; VII, total selling price at fifty cents; VIII, added selling price at fifty cents; IX, profit; X, total selling price at \$.4135; XI, added selling price at \$.4135; XII, profit. From data in this constructed table, answer the following questions:

a. Which combination gives the least cost per unit?

b. For the combinations given, the plant is in the state of <sup>increasing</sup> ~~diminishing~~ returns; from 9 to 11 the costs per unit <sup>increase</sup> ~~decrease~~, beyond 11 they <sup>increase</sup> ~~decrease~~. Make proper erasure.

c. If the product were selling at fifty cents per unit, which combination would you use? What

would be your average cost? If A's can be increased, will it be more profitable to increase A's with B's so as to maintain combination 11, or to increase B's alone?

d. With the costs for A and B as given, what price will come to prevail under free competition? What will be the social significance of this price?

e. Show that the per cent of profit received is no indication as to whether the plant is in the stage of diminishing returns or in some other stage.

23. Which is relatively the more expensive, the coal or the furnace used in heating a house? Should one plan to buy a furnace that will normally be worked in a combination near the beginning of diminishing returns or near the point of maximum returns? Why is the word *normally* used?

24. "When I build my house I shall put in two furnaces, a large one for cold weather, and a small one for mild weather."

a. Argue that this would be a wise plan if one lives where the winters are long. How do the length of the winters affect the problem?

b. Can you think of any condition in industry that is analogous to this case?

25. Are industrial plants likely to be in the stage of diminishing returns, or increasing returns,

during boom times? During periods of depression?—(T.)

26. Show that the problem of the combination of factors is involved in determining the height of office buildings.—(C.)

## XII.

### PRODUCTION: FORMS OF ORGANIZATION.

1. If you were planning (1) to write a book, (2) to practice law, (3) to open a bookstore, or, (4) to manufacture threshing machines, what advantages, or disadvantages, would come (*a*) from forming a partnership; (*b*) from organizing a corporation?

2. "Since all the profits of a corporation go to the stockholders, it is unfair that debts beyond corporate value should fall upon creditors; I object, therefore, to the limited liability of the corporation." Should you favor legislation making stockholders liable for all debts contracted by the corporation? Discuss fully.

3. "I weigh my words, when I say that in my judgment the limited liability corporation is the greatest single discovery of modern times, whether you judge it by its social, by its ethical, by its industrial, or in the long run,—after we understand it and know how to use it,—by its political effects."—PRESIDENT BUTLER, quoted in *Proceedings of*

*The National Tax Conference*, 1912, p. 187. Suggest reasons for this view of the corporation.

4. Are the economic advantages of corporate organization enhanced by the fact that shares of stock sell for about \$100 and always have a ready market on the stock exchange? Explain.

5. "The inflation of the capitalization of a corporation is called stock watering."

a. Why should stockholders wish to increase the nominal capital of the corporation?

b. Account for the term *stock watering*.

c. How does the public suffer from stock watering in the case of public service corporations?

6. "To sell out (dispose of stock) when the affairs of a corporation are going badly, to buy in when they are going well, is the height of business acumen."—TAUSSIG, *Principles of Economics*, p. 92.

a. Is this condition at all undesirable? Explain.

b. What general advantage results from this procedure?

c. What institution makes such procedure possible?

7. "One result of the corporate organization of industry is that many persons who loan capital have

no control over the use made of it, or over the treatment given to the employees whose employment it makes possible.”

*a.* Explain why this is true.

*b.* Discuss the advantages and the disadvantages of the situation.

*c.* Can you suggest any remedies tending to correct the disadvantages? Would the sale of the stock of “bad” corporations by righteous owners be a corrective measure? Discuss fully.

8. Why have industrial conditions since, rather than before, the industrial revolution, stimulated the growth of corporations?

### XIII.

#### SOME SPECIAL CASES OF PRODUCTION.

##### A. SPECULATION.

###### (1) *Produce Speculation.*

1. Is the risk of price fluctuation greater or less than formerly?

2. "Every man who buys a good to sell again is a speculator." Is this true?

3. Is it economical to society to have a separate speculating class?

4. "Speculation is the taking of necessary risks; gambling is the taking of unnecessary risks." Illustrate the truth of both parts of this statement.—T.

5. A miller buys 10,000 bushels of wheat in October at \$1 per bushel and expects to sell the flour in December at the price then prevailing. If the price of wheat should rise and cause a rise in the price

of flour, he will gain, but if the price should fall he will lose. He does not wish to bear the risk of the loss.

*a.* Who will bear this risk for him? How will this other person be recompensed for doing this? By just what process will this second person assume the risk? Is it socially worth while to have a special class of persons who will assume these risks?

*b.* If October wheat is \$1 and the cost of carrying wheat until December is three cents per bushel, then December wheat will be worth \$1.03 in October. If the miller sells short for December at the time he buys the wheat he is to grind, his account will stand as follows:

WHEAT FOR MILLING

|                                               |                 |
|-----------------------------------------------|-----------------|
| 10,000 bushels at \$1.....                    | \$10,000        |
| Storage, insurance, etc., two months, 3c..... | 300             |
| Total cost .....                              | <u>\$10,300</u> |

FUTURE, OR SHORT SALE

|                                                               |                 |
|---------------------------------------------------------------|-----------------|
| 10,000 bushels to be delivered in December at<br>\$1.03 ..... | <u>\$10,300</u> |
| Total selling price of short sale.....                        | \$10,300        |

If the price is \$1 in December, how much will the miller lose on his flour due to the fact that the price of wheat is \$1 rather than \$1.03 as expected? But as he can buy wheat at \$1, to be delivered at \$1.03,

he will make what sum on his short sale? Do his loss and gain balance? If so, how does he make any money?

c. Assume price to have risen to \$1.08 in December and compute the miller's gain or loss on each transaction?

d. Why use the term "selling short"?—(T.)

6. Argue that wheat speculation, as illustrated here, tends to lower the price of flour.

7. Consult the daily paper and find the price of wheat to-day. What is the price of futures?

8. A manufacturer of cotton goods buys raw material in February. He expects to have the goods ready for market in May. How can he escape the risk of losing through a decrease in the price of cotton if he is unable to sell the goods in advance? Illustrate.

9. Taylor says that the chief functions of speculation in produce are: (1) to establish proper price; (2) to secure the bearing of the risk burden of ownership in the easiest and cheapest way? Show how each of these ends is secured.

(2) *Speculative Trading in Stocks and Bonds.*

10. "The buying and selling of stocks and bonds encourages the investment of capital." Show that this is true for two reasons.

11. "The function of enterpriser can be efficiently performed only in case capital is available."

a. Support this statement.

b. Does the stock market help to make capital available? Explain.

12. "The efficiency of the corporation as a factor in production is greatly enhanced by the existence of the stock market." By a hypothetical case, show that this statement is true.

13. "We have borrowed an enormous sum of capital from abroad during our history."

a. In what form have we imported this capital?

b. How have the loans been negotiated?

c. How have the debts been paid when payment was desired?

14. Note the prices of the various securities listed in the daily papers. Why are there such differences in the prices of securities?

15. What are some of the evils of stock speculation? Can you suggest corrective remedies?

## B. INSURANCE.

16. "Insurance eliminates risks." Is this true? Do fire insurance companies prevent fire? Do they

prevent fire losses to individuals? Just what is their function?

17. Is insurance a cost of production? Does it encourage production? Is an insurance company a producer?

18. "No, that building that just burned was not insured. I have not insured a building for seven years."—A successful farmer. Why doesn't he insure his buildings? Why do you suppose he stopped insuring them at the time he did rather than earlier?

## XIV.

### PRODUCTION AND DISTRIBUTION.

1. What does the word *distribution* mean as it is commonly used by business men? What does the economist mean by distribution?

2. Through what doors are the products of our industry distributed, that is, what are the shares in distribution? Are the two processes, production and distribution, separate and distinct? Do not forget to explain.

3. "Distribution is determined by the prices that are set upon the production factors." Explain.

4. Is the subject of distribution of wealth more important to-day than it was at the time of the industrial revolution? If so, explain why.

5. What Seager calls *wages of management* is often called *enterprisers' profits*. It may be urged that the income in question is not wages and is not paid for management. Argue for and against Seager's use of the term.

6. "Taxes do not represent a share in distribution but only a deduction from the rent, wages, interest, and profit which would otherwise remain with individuals." Do you agree? Explain.

7. "Opposed to the fact that fully nine-tenths of the products of current industry are not in consumable form is the equally certain fact that practically the entire money income is spent for goods that are ready for consumption."—SEAGER, p. 180.

*a.* What part of the productive effort that is spent in producing bread is spent upon the day that the bread is purchased for consumption? About what is the remotest date at which any of that effort was performed?

*b.* Answer similar questions in regard to coffee.

*c.* Suggest an article where production is completed in one day.

*d.* Can it be said that producers of to-day receive their pay in goods produced largely in the past? Illustrate. If producers are paid largely in past products, do they get an equivalent of what they produce inasmuch as production methods are constantly becoming more efficient?

8. What is the problem of distribution? How does your author answer it?

## XV.

### DISTRIBUTION: RENT.

#### A. THE NATURE AND ORIGIN OF LAND RENT.

1. "Rent is the price paid for the use of land."

*a.* What determines the rent that tenants pay for agricultural land?

*b.* What determines the rent that is paid for city lots for business purposes? For residence sites?

2. "Rent is due to the fact that price of product rises above the cost of production, including necessary profit."

*a.* Argue in support of this statement.

*b.* Why does the price of agricultural products rise above the cost of producing them?

*c.* Then, why does rent exist?

3. "Price rose from thirty cents to forty cents per bushel, thus making it possible to farm poorer land, and, as a result of farming the poorer land, rent emerged on the best, or thirty-cent land." Criticise this statement.—(T.)

4. "Rent is measured by the method of differences, starting from the no-rent land margin and proceeding from grade to grade until the best and most favorably situated lot for the purpose that is economically most important is reached."—SEAGER, p. 241.

a. Is it necessary to have no-rent land in order to have rent?

b. Rent can be measured as suggested in this quotation only in case a certain condition maintains. What is this condition?

5. What influence do you expect that the refrigerator car has had upon rent? The automobile? The telephone?

6. If a subway should be constructed in a large city, what effect should you expect this to have upon the rent of land (1) in the downtown business district, (2) in the residence district adjacent to the downtown business district, (3) in the outlying business district, (4) in the outlying residence district?

## B. THE RELATION OF RENT AND SELLING PRICE.

7. a. If a tract of land is bearing \$400 rent and men are satisfied with five per cent income from land, what price will be set on this tract? What price if the rate of capitalization is three per cent?

b. If this land is expected to bear \$500 rent five years from now and \$600 ten years from now, will this affect the market price of the land? In terms of interest earnings, what effect will an expected increase in rent have upon land income?

8. If a residence rents for \$40, how could you determine the probable market value of the lot?

9. A certain piece of land yields twenty bushels of wheat per acre, the expenditure per acre being \$10. With land on the margin of cultivation yielding ten bushels for the same expenditure, and with the rate of capitalization five per cent, what value would an acre of the twenty-bushel land tend to have when there was a tax on it equal to eighty per cent of the rent? Put down in your answer each step in the solution, and explain fully.—T.

10. "The price of land has risen recently, so the landowners are demanding more rent." Is this reasonable? Explain.

### C. THE SOCIAL ASPECT OF RENT.

11. "As, with increasing population, there falls out, per capita, a smaller product in society to be divided, there goes to the landlords a larger and

larger proportion of this more and more tragically inadequate total. The landlords gain by the general ill-fortune. Those classes disinherited of land are doomed to a double and compounded pressure of adversity. The land famine smites them with both edges of its sword.”—DAVENPORT, *Economics of Enterprise*, p. 180. Illustrate this contention by referring to the table of combining proportions in section VII. What are the two edges of the sword?

12. Argue that under government ownership of land justice would require that rent be charged for residence sites so soon as two persons came to desire the same site. Is it probable that there could be a community in which two or more persons would not desire the same site?

13. Is it wise to have private ownership of land? If so, can we safely take all the rent from the owners by imposing taxes equal to the rent? Can we safely take part of it? Discuss fully.

14. Is there a particular reason why the rent due to public improvement should be taxed into the public treasury? Explain.

15. If the state owned all the land, could individuals secure land more easily than they can today? Explain.

16. Suppose that I own a farm in Ohio and rent it for cash rent of \$500 per year. Do I earn the \$500? Does the tenant earn it? Who does earn it? Why?—P.

17. Do you expect that rent will increase or decrease in the United States? Explain. Which sections do you expect to show an increase in rent relative to other sections?

## XVI.

### DISTRIBUTION: WAGES.

#### A. THE DETERMINATION OF WAGES.

1. "An industrial society in which certain persons are paid \$500 per day while thousands of their brothers are paid only \$2 per day is indefensible." Do you agree? Discuss fully.

2. Assume a community in which the raising of corn is the main industry.

*a.* What will determine the wages in corn that rival farmers will pay? Will this increase or decrease as population increases? Will the farmers be forced to pay all that they can pay? Is it possible that certain farmers could afford to pay more than the established wage for the quantity produced? Explain.

*b.* How would wages be affected: (1) if the methods of raising corn should be improved; (2) if improved transportation facilities should make more corn land available; (3) if gold should be discovered in adjacent territory?

3. Why are wages higher in Montana than in Georgia?

4. "Women are paid less than men for similar work." Explain.

5. "The economists teach that free bargaining between capital and labor will give the laborer just or reasonable wages." Show that the economists do not teach that free bargaining, but rather that some other force, will give just wages.—(T.)

6. "We should establish a minimum wage of \$6 per day for all workers."

a. Give an argument in opposition to this proposal.

b. Argue in favor of minimum-wage legislation.

7. "The employer's interest is in money wages; the laborer's interest is in real wages." Discuss.

8. In defending the organization of trusts, and the consequent restraint of competition, an argument like this is sometimes used: "Competition in the sale of goods so reduces prices that it is impossible to pay fair wages to the workman." Defend the contention that the competition which tends to reduce the prices also tends to raise wages.—T.

9. "If you are an American wage-worker using modern machinery in an up-to-date plant, you produce each day goods that sell at retail for at least \$10. But you don't get the \$10; *you* get, on an average, about \$2; somebody else gets the \$8."—CHAS. H. KERR, in a socialist pamphlet. Show that, if the wage-worker in question did get the whole \$10, he would be cheating some other wage-worker as well as some non-wage workers.—T.

10. "Wages are apt to be fixed much closer to the minimum which the laborer will take than the maximum which the employer will pay; for the latter has much more skill and strength in bargaining." Construct a demand and supply schedule according to which employers will pay \$5 per day for 100,000 days' labor and employees will take \$1.50 per day for that amount of labor. Show that it is possible that the wage may be set at \$5. Is it probable that it will be nearer \$5 or \$1.50?—(T).

11. "The capitalists own the tools of production and can thus force the workman to take any wage, since labor cannot work without tools."

a. Do you agree? Discuss.

b. Turn the quotation about so that the laborers will appear able to dictate the wage.—(T.)

12. Why do surgeons receive incomes that are greatly in excess of incomes received by physicians?

13. "Men love to excel at difficult and important tasks. The instinct of workmanship and social prestige will hold them to the socially important work. Differences in financial remuneration are not necessary." Do you agree? If not, do you believe that there is any merit in this contention? Discuss fully.

14. If you were to go into a community as a dentist, what would determine the prices that you would set upon your services? Would you be at all influenced by the fact that there were, or were not, other dentists in this community? Explain.

15. "Competition is not effective in determining physician's fees, else the fees would be lowered, as competition is very keen."

*a.* Account for the fact, assuming it to be true, that physicians' fees are not lowered by competition.

*b.* Argue that large fees result in competition which reduces income, although it does not reduce particular fees.

*c.* Is the condition suggested in *b* in accordance with principles of social economy? Explain.

16. *a.* Does special educational training for a few increase the wages of these few? Why?

b. Would equivalent education for all lower the wages of the "few"?

c. Would such education for all increase general wages over what they would otherwise be? Why?

## B. WAGES AND THE STANDARD OF LIVING.

17. "There is a vital connection between the population question and the wages question." Discuss.

18. "No remedies for low wages have the smallest chance of being efficacious, which do not operate on and through the minds and habits of the people."—MILL. Argue for the truth of this statement. (It probably needs qualification; but leave that for some other occasion.)—T.

19. "The standard of living keeps wages up."

"How so? Men must work for what they can get. Their standard of living will not enable employers to pay them more than the competitive wage." Does the point made in the second quotation disprove the position taken in the first? Explain.

20. Are the wages of teachers determined by their standard of living, or is their standard of living determined by their wages? Discuss.

21. Is the "long time" concept vital in the consideration of the wage and standard of living problem? Explain.

### C. EMPLOYMENT.

22. According to a principle formulated by J. B. Say (Say's Law), the goods and services which are offered on the market constitute the demand for other goods and services.

*a.* Show that the farmer's demand is conditioned by his supply; the manufacturer's; the musician's.

*b.* Then what must be the effect upon employment of the destruction of goods? Of extravagant consumption?

23. "The spring snowfall was a great blessing to labor, for the city had to employ a large number of men to remove the snow from the streets."—A news item.

*a.* Did this benefit certain laborers?

*b.* Was it a benefit to laborers generally?

24. "A store burned in our town and relieved the unemployment situation. It was a blessing to the laboring man." Illustrate concretely how certain laborers may be expected to have lost because of this fire.

25. Mr. A., having earned and saved \$10,000, throws it into the sea. Another, having earned and saved \$10,000, spends it on a great banquet. Which makes the greater demand for products? Explain.—T.

26. “The college professor’s wife who makes her own dress is unfair to those persons who must work for a living.” Criticise.

27. Minnesota labor unions petitioned the 1915 legislature to defeat the county option liquor bill on the ground that the closing of the saloons and breweries would throw a great number of men out of work. Discuss the probable effect of prohibition on employment.

28. “Prison labor should be devoted to road building and thus not brought into competition with free and honest labor.” Argue that it is to the advantage of free labor to have prison labor produce as many goods as possible.—(T.)

## XVII.

### DISTRIBUTION: INTEREST.

#### A. THE NATURE OF INTEREST.

1. "Saving, or abstinence, is necessary to the existence of capital." Is this true? Could Robinson Crusoe have a fish-net without saving or abstinence? —(T.)

2. The interest problem is: Why does capital yield an excess over replacement? That is, why does a tool give a product that is more valuable than the tool? The problem is answered by answering the question: Why do we not have so many tools that the value of the product declines to the value of the tool?

a. Answer the last question.

b. Show that this answer is an answer to the second question, and that the second is only a re-statement of the first.

3. "It does not follow from the fact that capitalistic methods yield a physical product in excess of

non-capitalistic methods that interest will exist." Why not? Under what conditions may we have necessary things without paying for them? Under what conditions would we need to pay only the labor cost (no interest) for axes?

4. *a.* Assume a communistic society and show that justice would require that the persons requesting wine at the common store house in exchange for certain claim checks should be given a smaller quantity than is given in grape juice to persons presenting similar claim checks.

*b.* Show that in a socialistic society certain products will require equipment that will involve more waiting than is required for other products. Show that the persons using the products involving waiting should, in justice, pay more than the labor costs involved.—(T.)

5. Interest is either explicit or implicit. Explicit interest is manifested in loan contracts. Implicit interest is manifested in the prices paid for goods or for the use of goods. For example:

*a.* A producible good sells for a price higher than its costs in other goods and labor.

*b.* A produced good hires, or rents, for a price more than sufficient to return, in time, the capital value of the good.

*c.* A non-producible income-bearing good sells for a price lower than the sum of the expected incomes.

Illustrate each of these three cases of implicit interest.—(T.)

6. *a.* Under what conditions would you pay interest for consumption purposes? For production purposes?

*b.* Why is not the amount available for borrowers so abundant that they need not pay for its use?

*c.* What do lenders sacrifice in loaning? Under what conditions would you loan gratuitously? At the normal rate of interest? Only at an excessive rate, say twenty-five per cent?

## B. THE RATE OF INTEREST.

7. How much more efficient are the present highly capitalistic methods of grinding flour in Minneapolis than were the Indian methods that used to prevail in that locality? Estimate roughly the interest rate that we could afford to pay for milling capital rather than go without it? What is paid? How do you account for this difference?

8. "It is foolish to insist that interest must be paid because of the sacrifice of saving when many

men, like Rockefeller and Carnegie, cannot help saving. It would be, not only much more burdensome, but impossible for them to consume their incomes." Discuss this statement.—(T.)

9. "The pure interest rate tends to be the same in all lines of industry."

a. What is meant by the "pure interest rate"?

b. Accepting the statement as true, how do you account for the differences in the rates of income earned in different industries?

10. The present interest rate is about six per cent in Minnesota, while it is twelve per cent in Alberta. How do you account for this?

11. Since capital and labor may, to some degree, be substituted for each other, what may be said to be the economic relation between capital and labor, if a wage of \$2.50 per day and an interest rate of five per cent tend to be established at the same time?

12. High wages tend to cause an increase in the interest rate. Explain.

13. "The rate of interest tends to represent at once the productivity of capital and the disutility of supplying capital." Assuming the statement to be true, show by just what process this is brought about.

14. If the cost of building a mile of macadam road is \$6,500, a mile of concrete road \$12,000, and a mile of brick road \$18,000; and if the annual cost per mile of keeping the roads in good repair is \$600 for the macadam road, \$300 for the concrete, and \$50 for the brick, which road will be the most economical when the current rate of interest is two per cent? When it is four per cent? Five per cent? Six per cent? Ten per cent?—(P.)

## XVIII.

### DISTRIBUTION: PROFITS.

1. "Competitive profits (or losses) arise in consequence of deviations of market from normal prices."—SEAGER, p. 198.

*a.* Are profits, then, a cost of production?

*b.* If not, how are men paid for enterprise?

2. Certain economists designate the payment to the enterpriser *profit* rather than *wages of management*.

*a.* How would such persons modify the statement quoted above?

*b.* Are profits regarded as costs by such persons?

*c.* Which terminology seems to you to be preferable?

3. *a.* Give an illustration, preferably from your own experience, of an enterpriser's receiving profits in excess of the amount necessary to induce him to undertake the enterprise.

*b.* Of an enterpriser's receiving only sufficient profit to induce him to undertake the enterprise.

4. What is the relation of trading in futures to competitive profits? Of insurance? Explain.

5. "Pure profit (the payment for taking responsibility) involves an infinitesimal element of wages."—TAYLOR. Explain.

6. "Under free competition the consumer gets the benefit of all improvement in method, yet producers are always anxious to take up new methods." Explain and illustrate each part of this statement.—(T.)

7. *a.* Trace the effect of rising prices upon each source of income.

*b.* The effect of falling prices.

8. "Profits from a corporate enterprise may be concealed by watering the stock." Explain.

9. *a.* Would there be risks in production under government ownership of industry? If so, would this be entered as a cost in the books of the state?

*b.* Would profits exist in such a state?

## XIX.

### DISTRIBUTION: MISCELLANEOUS.

1. "The single-price feature is a necessary complement to the approved system of distribution under any economic order in which there is co-operation and in which the shares in distribution first take the form of money income."—TAYLOR, *Principles of Economics*, 1914, p. 404. Prove that this is true by assuming distribution to be (1) incomes in proportion to needs; (2) incomes in proportion to service; (3) equal incomes.

2. In the light of the above, discuss the principle of price-determination implied in the following statement by a surgeon who found a hospital patient weeping because she felt that she could not afford to have the recommended operation: "Never mind, the lady in the adjoining room will pay your bill."

3. "The Productivity or Service-Value principle of distribution, properly understood, contains no promise that an increase in the efficiency of any particular factor in production will secure a larger income of goods in general for the persons supplying

said factor; though, of course, such increase in efficiency is very desirable from the standpoint of people generally."

a. Argue for the correctness of the contention set forth in the first part of the above quotation.

b. If that contention is correct, how is it that the persons supplying a particular factor are induced to try to increase its efficiency?

c. How is it that people in general profit by the increased efficiency of any productive factor?—T.

4. Suppose that by the draining of swamp lands, one-fifth should be added to the tillable soil of the country. What effect would it tend to have on wages? On profits? On interest? On agricultural rent? Explain in each case.—T.

5. "Labor suffers from an increase of capital and land, for such an increase will lower prices of capital goods and of land and lead enterprisers to substitute these for labor."

"An increase in the supply of capital or land is of advantage to labor, as it gives each laborer more tools, or more land, to work with, and hence increases his product."

Discuss the relative validity of these statements.

6. May laborers gain as consumers, even if they do not gain as producers, from the introduction of improved methods? Explain and illustrate.

7. "Labor alone should enjoy the products of industry, for labor alone is responsible for the product. This is obvious when we realize that if labor were not applied all the capital in the world could not produce anything."

a. Does the truth of the last statement prove the second clause in the first sentence to be true? What logical fallacy is involved in the quotation?

b. Write an analogue to the above in which labor and capital are made to change places.—(T.)

8. It was generally held by the economists of the so-called classical school that, if the methods of production undergo no substantial change while population keeps on increasing, wages, interest, and profits will tend to get smaller and smaller and rent (economic rent) to get larger and larger. Show that this doctrine is a natural deduction from the theory that the shares of labor, waiting, and responsibility-taking are determined by their respective marginal productivities.—T.

9. "Broadly speaking, it is not the desert of the great singer, or artist, or surgeon, or captain of industry which justifies his receiving such exceptionally large payment for his services, but rather the welfare of people in general." Defend this statement.—T.

## XX.

### MONEY.

#### A. THE NATURE OF MONEY.

1. What is money? Why have money? Are we better off economically when we exchange goods for money? Why do we exchange money for goods? Do we lose by such exchanges?

2. "A nation is so much poorer by every dollar it sends out, just as an individual is so much poorer by every dollar he spends." Criticise both clauses. —(T.)

3. "Foreign trade can add to the national wealth only when it brings in a money balance."

a. What is the principal thing to be gained by maintaining trade relations with the outside world?

b. When would it be of advantage to have our foreign trade bring in a money balance?

c. What idea does the person quoted appear to have as to the relative values of economic goods? —(T.)

4. "I don't see that society as a whole loses anything by the giving of a fireworks exhibition costing \$1,000. Of course, the people who pay for the fireworks are just so much out. But then the \$1,000 goes to the other people who furnish the fireworks; so that society as a whole comes out even." Criticise.—T.

5. "The only justification I can see for the luxurious expenditure of the idle rich is that money is put in circulation—other folks have a chance to get hold of the idle hoard."—A university professor. Discuss the issue raised.

6. "The Russian Government is expending \$12,000,000 a year on new aeroplanes, and although these may never be needed in war, the money will not be wholly wasted, for all the machinery is to be designed and constructed in Russia."—Editorial, *The Independent*, April 13, 1914. Discuss the economic principle involved.

7. "That proportion of the money received from the bonds (sold by European governments to finance the present war), which is spent in the home country, is not all wasted, but there is no getting back the money which is spent in the United States or

other lands. For this reason, Germany is in better financial condition to-day than any of the other belligerents. Her dealing has all been among her own people.”—ROGER W. BABSON, in *Daily News*, August 1, 1915.

a. Are the allies following a sound policy in buying goods and ammunition in the United States? Does Babson imply that they are wise or foolish?

b. Need the allies get back the money which they spend in the United States in order not to lose?

c. State in other than monetary terms the economic cost of the first year of the war.

8. “Money spent at home for goods is used over and over again and benefits many, but money spent in the Chicago Mail Order Houses benefits none of us but the buyer.”

a. Is \$75 spent for china in Minneapolis used “over and over again” in Minneapolis? Explain.

b. May it be socially economical for the inhabitants of Minneapolis to buy in Chicago? Explain.

c. Might such a policy affect the population of Minneapolis numerically? If a reduction in population should ensue, what persons would lose by the change?

d. Can the inhabitants of a city afford to buy at home and pay high prices rather than have the population of the city decrease? Explain.

9. A resident of Mankato, Minnesota, plans to spend \$300 for a supply of clothing for his family.

a. Estimate the monetary gain to Mankato from having the money spent there. Specify in detail the probable division of the sum gained among the various persons in Mankato who may be expected to share in the gain.

b. Make similar estimates, supposing the money to be spent in Minneapolis.

c. Compare the advisability of this individual's trading in the one place or the other, (1) if he is a retired business man receiving his income from eastern corporations; or (2) if he is a practising physician with property interests in Mankato.

10. The functions of serving as a *medium of exchange* and as a *measure of value* "are not two different functions, but merely two different aspects of the same thing."—ELY, *Outlines of Economics*, p. 221. Show that we may use money as a measure of value when we have no thought of using it as a medium of exchange.

## B. MONETARY SYSTEMS.

11. What is our standard money? Who determines what our standard money shall be? Has it always been as it is now?

12. Why is gold well suited to serve as money? In what way, if any, are each of the following commodities inferior to gold as a monetary medium: wheat, cotton, diamonds, iron, copper, silver?

13. "The coinage of money has almost universally been regarded as a prerogative of the sovereign." Why?

14. "Free (unrestricted) coinage and unrestricted melting keep 23.22 grains of pure gold worth \$1." Explain. Are both free coinage and free melting necessary to maintain the parity of the standard money?

15. *a.* If an ounce of gold is worth thirty-two times as much as an ounce of silver, and if the government should decree that both gold and silver should be standard money, and that there should be 371.25 grains of silver in a silver dollar and 23.22 grains of gold in a gold dollar (bimetallism at the ratio of 16:1), in what money would debts be paid? Why? Which money would be overrated? Which money would become the standard? What would become of the other money?

*b.* At what ratio could both silver and gold be maintained as standard money? How could this ratio be established? Could we be certain that this ratio would be the proper one next year?

16. What is Gresham's Law? Why does not our silver dollar, worth about fifty cents, replace gold as standard money?

17. "Token money should be light in weight."

a. What is token money?

b. What is meant by its being light in weight? Why is this necessary?

c. The Congress of the United States passed a law in 1853 providing that the amount of silver in the fractional silver coins should be reduced. Why do you suppose Congress made this provision?

18. "Gold is a commodity like all other economic goods, and its exchange value is determined according to the principle that controls the exchange value of other goods. Its value rises when the gold supply is relatively small, and vice versa."

a. When gold is discovered, what evidence do we have of change in the value of gold in the vicinity of the "strike"?

b. How can we ascertain whether gold is rising or falling in value?

c. If gold falls in value, what effect does this have on creditors? On debtors? On receivers of fixed incomes? On receivers of incomes which change less rapidly than other incomes?

19. "A multiple standard would prevent the injury that inevitably results from a money standard." Explain what is meant by a multiple standard, and argue for the truth of this statement.

## XXI.

### CREDIT AND BANKING.

#### A. BANK CREDIT.

1. "Credit economizes the use of money." Explain what is meant.

2. "With \$100 in a bank as a basis for credit, the bank can furnish \$800 of exchange media."

*a.* Just how can the bank do this?

*b.* Why is it safe to do this?

*c.* Under what conditions could it loan a still larger amount on a reserve of \$100?

*d.* Should the amount which may be loaned in this way be specified by law?

*e.* If the bank holds a large quantity of high-grade bonds, may it more safely keep a small reserve than if it has, instead, invested a similar amount in farm mortgages? Explain.

3. What is a check? Why do most persons prefer to use checks in exchange transactions? Why is it important socially that checks be used?

4. If a resident of Davenport, Iowa, sends a check for \$20 to a dealer in St. Paul, the dealer will write his name across the back of the check and cash it at his bank.

*a.* Why will he write his name upon the check? How will the bank reimburse itself for the \$20 given to the dealer?

*b.* Suggest the probable route that the check would take in returning to the payer in Davenport.

5. A. B., of St. Louis, buys \$1,275 worth of flour from X. Y., of Minneapolis.

*a.* Suppose settlement to be effected with a wheat bill of exchange (also called a sight draft), and write out the substance of the bill which would be used.

*b.* Suppose settlement to be made with a check, and write out a facsimile (in substance).

*c.* Suppose settlement to be made with a bank draft, and write out a facsimile (in substance).

*d.* Describe the imaginary course which each of these instruments would take.—(T.)

6. Many deposits are due not to the deposit of money but to the borrowing of bank credit. Explain.

7. The per capita amount of money, of all kinds, in circulation in the United States is about \$35, yet the deposits per capita in savings banks, July 1, 1913, were \$48.57. How can this be?—P.

8. "Commercial banking stands or falls, as to its social utility, with the merits or demerits of the business man's doings."—TAUSSIG, *Principles of Economics*, p. 359. Show that this is true.

#### B. BANK NOTE ISSUE.

9. A customer gives his note and opens a checking account.

a. Show that if the bank should, instead of giving him a checking account, issue him due bills upon it (bank notes), the banking principle involved would be similar to that involved in a checking transaction.

b. In what way would the bank's notes be superior to checks as media of exchange?

c. What element of danger is involved in allowing banks to issue their own notes?

d. Should we impose reserve requirements in regard to notes? Why?

10. "The issuance of bank notes is far more important in a community not accustomed to the use of checks, as rural districts, than in communities accustomed to the use of checks, as cities." Why is this true?

11. Country districts need more money during the crop-moving season than at any other time in the year.

a. Show just why it is that an extra amount of money is needed at that time.

b. Would it be advantageous if the farm communities could, through their banks, manufacture their own money? How could this be done?

c. If they cannot provide their own money, how can they get the needed amount?

d. Trace the movement of this extra money from the time it leaves the banks in the farm community until it returns to the regular channels.

12. From the time of the civil war until recently, banks could issue notes only upon United States government bonds.

a. Point out one advantage of such a system.

b. What must have been the chief disadvantage of the system?

c. Is there any significance in the fact that there was a financial panic in 1907, and that this note-issue provision was temporarily amended at the session of Congress next following, in 1908, making it possible to issue bank notes upon collateral other than United States bonds?

13. "If banks can issue their own notes when called for at the counter, we can always have all the circulating medium we need. When trade is taking place, securities will be abundant and can be used as

security for notes, and when trade abates the notes will be deposited in the banks, returned to the issuing banks and be canceled and retired."

*a.* Do you believe such a system of note-issue to be proper?

*b.* What reserve requirements would be necessary for banks issuing notes?

*c.* Would it be well to limit this function to certain banks?

*d.* What advantage might accrue from prohibiting banks paying out the notes of other banks?

*e.* In what way is our banking system analogous to the system here suggested?

### C. THE CLEARING HOUSE.

14. October 1, 1907, the different banks of Ann Arbor brought to the clearing claims against each of the other banks as follows:

| No. 1 against     | No. 2 against     | No. 3 against     |
|-------------------|-------------------|-------------------|
| No. 2, \$2,213.19 | No. 1, \$4,284.78 | No. 1, \$4,974.66 |
| No. 3, 1,865.09   | No. 3, 2,172.45   | No. 2, 1,607.79   |
| No. 4, 2,415.96   | No. 4, 3,043.18   | No. 4, 1,093.24   |
| No. 5, 512.21     | No. 5, 655.87     | No. 5, 625.88     |
| Total \$7,006.45  | Total \$10,156.28 | Total \$8,301.57  |

| No. 4 against     | No. 5 against    |
|-------------------|------------------|
| No. 1, \$3,078.73 | No. 1, \$ 332.15 |
| No. 2, 1,793.16   | No. 2, 377.17    |
| No. 3, 973.73     | No. 3, 1,515.46  |
| No. 5, 4,633.96   | No. 4, 181.56    |
| Total \$10,479.58 | Total \$2,406.34 |

- a. Compute the balance for or against each bank.
- b. How much money was needed at the clearing house that day?
- c. How can you account for the condition shown by bank No. 5, namely, that bank No. 4 cashed so many checks drawn upon this bank, while the other banks cashed so few, and that it cashed but few for any of the other banks? From this showing, is bank No. 5 necessarily the smallest of the five banks?
- d. If there are only two banks in a town, how do they "clear"?
- e. Show concretely the saving that results from the clearing house in this town of five banks.
- f. State definitely the primary function of the clearing house.
- g. Is the amount of bank clearings a fair index of the prosperity of a community? Explain.—(T.)

15. If a resident of Peoria sends a check to a dealer in Chicago, the check may or may not go through the clearing house in Peoria. Explain.

#### D. THE BANK STATEMENT.

16. A bank statement shows the marketable property of the bank under the caption, *assets*, or *resources*, and the liabilities of the bank to the stockholders, or owners, and to the depositors, or customers, under the caption, *liabilities*.

- a.* Why do banks issue statements?
- b.* The assets and liabilities are always exactly equal. How do you account for this?
- c.* If the assets and liabilities are always equal, how can the statement indicate the strength of the bank?
- d.* Are the following resources or liabilities (if liabilities, are they to the stockholders or to the depositors): capital stock, cash, due from other banks, overdrafts, circulation, undivided profits, U. S. bonds, surplus, deposits, loans and discounts?

17. If men in organizing a bank put in \$20,000 in gold, the statement will then stand: Assets,—cash, \$20,000; liabilities,—capital stock, \$20,000.

- a.* How will the statement be affected if \$10,000 is spent for a site and building?
- b.* If X. deposits \$200 in gold?
- c.* If Y. cashes a \$50 check drawn by X.?
- d.* If Z. opens an account by depositing a \$100 check written by X.?
- e.* If Z., wishing to borrow, gives his note for \$300 to the bank and has this amount, less \$2.45 interest, credited to his deposit account?
- f.* If the bank spends \$1,000 for bonds?
- g.* If the bonds are later sold for \$1,100?
- h.* If Z. pays his note at maturity?

## XXII.

### FOREIGN EXCHANGE.

1. Par of exchange on London is \$4.866. How is this figure derived?

2. Suppose that X. in New York sells A. in Liverpool a cargo of cotton for £1,000, and that B. in Liverpool sells I. in New York a quantity of steel for £1,000.

*a.* How can these bills be most easily paid?

*b.* Why would it be unwise for A. to ship £1,000 in gold to X. and for I. to ship a similar amount to B.?

*c.* I. owes B. £1,000, or \$4,866.66. If it costs three cents to ship £1 to England, how much would I. be willing to pay X. for his claim on A. with which to pay B., rather than ship gold to B.?

*d.* For how much per pound would X. be willing to sell his claim rather than have the gold shipped to him at his expense?

*e.* If other persons have also sold abroad and possess claims on Englishmen, they will compete with X. to sell claims to I. What effect will this have

on the price per pound that importers must pay for claims with which they may discharge their obligations? How low can this normally go? Why?

*f.* If other persons have also bought abroad, they will compete with I. in buying X.'s claim. This will have what effect on the price that exporters can get for their bills? How high can this normally go? Why?

*g.* What is the high "gold point"? The low "gold point"?

3. *a.* If you are in country A and desire ten ounces of gold in a distant country, B, under what conditions could you buy the right to this much gold in B, for less than ten ounces of gold? Under what conditions would you have to give more than ten ounces? Under what conditions would the price be just ten ounces?

*b.* Suppose yourself to possess ten ounces of gold in country B, which you desire in country A, and answer corresponding questions.

4. What is the fundamental reason for the rate of exchange ever being other than par? If the Atlantic Ocean were a narrow river, would the rate of exchange on London normally vary more, or less, from par than it does now?

5. If London bills are selling in New York for \$4.89, should you expect London banks to pay more or less than face value for American bills? To charge more or less than face value for American drafts?

6. Exporters do not sell their claims direct to importers: they sell to middlemen. Who are the middlemen? Does the middleman sell the piece of paper which he receives from the exporter, to the importer, or does he give him another piece of paper? If the latter, what does he do with the paper he buys from the exporter?

7. If the exchange broker has exhausted his London balance, and is unable to buy exporters' claims, what must he do to replenish his balance so that he can sell drafts to importers? Then what price must he charge for his drafts?

8. *a.* If you are a wheat exporter and have sold a shipment for £1,000, what can you realize on your claim if exchange is \$4.84? If exchange is \$4.87?

*b.* Suppose you are an importer and have bought merchandise to the value of £1,120. What will it cost you to pay your debt if exchange is \$4.84? If exchange is \$4.87?

*c.* What principle can be deduced as to the effect that a high or a low rate of exchange tends to have on exports? On imports?—(T.)

9. Consult the daily papers and find the rate of exchange on London to-day. Is the rate normal for this time of year?

10. Excessive exports tend to cause a <sup>high</sup><sub>low</sub> rate of exchange; but this rate of exchange tends to <sup>increase</sup><sub>decrease</sub> exports and <sup>increase</sup><sub>decrease</sub> imports, and thus bring the rate again to normal. Make the proper erasures and write a similar statement, beginning, "Excessive imports ————."

11. Do the following tend to raise or lower the rate of exchange on London: Explain.

- a.* European travel by Americans?
- b.* American travel by Europeans?
- c.* Borrowing abroad by selling American securities?
- d.* Buying of postal money orders to be sent to Europe?

12. "A country that produces gold tends to export more gold than it imports." Show how the

production of gold leads to a rate of exchange that makes the sending of gold profitable.

13. "Movements of gold as a result of a high or low rate of exchange tend to be self-corrective." Explain.

## XXIII.

### FOREIGN TRADE AND THE TARIFF.

#### A. THE THEORY OF FREE TRADE.

1. "Domestic trade cannot increase the wealth of the nation. It is only by foreign trade, and then only by getting more than is given, that a nation can enrich itself." Discuss.—(T.)

2. Country A can produce pig iron at a cost of ten days' labor per ton and broadcloth at a cost of five days' labor per yard. Country B can produce the iron at a cost of fifteen days' labor and the cloth at a cost of six days' labor. The comparative costs of the two articles in each of these countries is, then, as follows: Country A, one ton equals two yards; Country B, one ton equals two and one-half yards.

*a.* Prove in detail that if transportation and all costs other than labor be ignored, exchange of these products between A and B will pay.

*b.* Is such exchange in line with social economy?

*c.* Which country is the more efficient in producing iron? In producing cloth?—(T.)

3. Country X can produce wheat at a cost of one-half day's labor per bushel and knives at a cost of one and one-half days' labor per dozen; Country Y can produce the wheat at a cost of one day's labor and the knives at a cost of two days' labor. Which country is the more efficient in producing wheat? In producing knives? Will exchange pay? Prove in detail.

4. Prove that exchange will not pay if comparative costs are equal.

5. "We know that England can make ships more cheaply than we can, and so we should let her do the shipbuilding and turn our capital to such things as we can do better than she can." Assuming the conclusion—that we should turn our capital to other things—to be correct, the reason given for it is not entirely satisfactory. Explain.—T.

6. "The great advantage of foreign trade is in furnishing a market for our surplus products which would otherwise go to waste." This surely is only a minor advantage of foreign trade. Why? Give something better.—T.

7. "It will never pay us to import anything which we ourselves can produce." Show that this proposition is erroneous.

8. "If we buy rails from England, we get the rails, of course, but they get our money; while, if we buy rails at home, we have the rails and the money too."—A statement falsely credited to Lincoln.

*a.* Is there any reason to expect that our buying rails in England would carry off our regular stock of money? Explain.

*b.* Should we regret such trading because it decreases our stock of money, if that should result?

*c.* Substitute "cotton" for "money," throughout the above quotation, and show the fallaciousness of the doctrine.—(T.)

## B. THE THEORY OF PROTECTION.

9. What is a tariff for revenue only? A tariff for protection? What general class of goods would bear a duty in the one case? In the other?

10. *a.* What is the "infant industry" argument?

*b.* Is it economically sound?

*c.* This argument implies that tariffs should be maintained for how long a period of time?

*d.* What political danger is inherent in "infant industry" protection?

11. "Though injurious economically, a protective tariff may be justifiable politically if there is sufficient likelihood of war."

- a. Give supporting argument.
- b. Cite historic illustrations in support of this position.

12. "Germany, with a tariff policy, has had the advantage of free-trade England in securing tariff concessions in foreign countries." Explain. Does this furnish an argument in favor of protective tariffs?

13. "A protective tariff works towards national efficiency, for it takes wealth from those who are less capable and puts it into the hands of those who are more capable." Show that a protective tariff may have this result. Do you consider this a valid argument in favor of protection?

14. a. Why are custom duties a popular means of getting revenue?

b. How can they be used to secure revenue without furnishing protection? How is this done in England?

### C. THE RELATION OF GOODS EXPORTED TO GOODS IMPORTED.

15. "Farmer Jones went in debt last year for \$4,000 worth of machinery, tile, fertilizer, and other equipment for his new farm, but sold only \$2,000 worth of produce."

- a.* Is Jones following a foolish policy?
- b.* Part of his crop during the ensuing years must be used for what purpose?
- c.* Compare his exports and imports for the first year mentioned; for the years immediately following.
- d.* If Jones later loans money to his neighbors, how will the exports and imports of his farm compare during the years he makes these loans?
- e.* How will they compare if he then decides to "live better,"—not to loan out so much money each year?
- f.* What similarity is there between this case and our relation thus far with Europe?

16. *a.* What should you expect to be the relation between the goods exported and the goods imported of a country during the following periods: (1) When it is first open to settlement or to industrial enterprise; (2) when it has become quite well supplied with imported capital goods; (3) when its citizens begin to make investments in other countries; and (4) when a relatively large amount of such foreign investments have been made?

*b.* In which of these stages is the United States? England? Mexico?

17. Will the following tend to increase our exports of goods or our imports of goods: Explain.

- a. Foreign travel by Americans?
- b. Travel in America by foreigners?
- c. Transportation of American exports in foreign ships?
- d. Borrowing of European capital?
- e. Interest payments on capital borrowed?
- f. Payment of amount borrowed?
- g. Loaning of capital abroad?
- h. Receiving interest from abroad?
- i. Insuring in foreign insurance companies?
- j. Maintenance of American ambassadors abroad?
- k. Supporting foreign missionaries?
- l. Export of gold?
- m. Sending home of money by immigrants?

18. "A favorable trade balance is an excellent sign of vigorous national life, and of a sound economic structure. It means that the nation is taking in more than it is paying out."—STRAUS, *Investor's Magazine*, Dec. 1, 1914.

- a. Do you agree with the first statement?
- b. Illustrate this point by comparing our "favorable," with England's "unfavorable," balance of trade.
- c. State the various things that a favorable balance of trade may mean.

19. "The true way to quicken foreign demand (for British goods) was to open the ports to that foreign supply with which they paid us for what they bought from us."—MORLEY'S *Gladstone*, vol. 1, p. 267. Show that the above is sound doctrine.—T.

#### D. THE COST OF PROTECTION.

20. "Tariff legislation encourages and develops sectional selfishness." Explain.

21. "A protective tariff fosters political corruption." How can this be true? Has protection in the United States had this result? Explain and illustrate.

22. "A protective tariff tends to hasten the destruction of our natural resources."—SEAGER, p. 396.

"On the contrary, free trade, by stimulating competition, makes it uneconomical to conserve our lumber, for example; it becomes economical to cut only the largest trees."

Discuss the point at issue.

23. "The protective tariff is the mother of trusts." Do you see any reason for this view? Explain.

24. The amount added to price by a tariff duty does not represent a social cost if the good can be produced without the tariff; but it does represent a social cost if the protective duty is necessary to the production of the good. Show that this is true. Then is protection less objectionable when it is not needed? What is the objection to it in such a case?

25. "A reduction of \$60,000,000 in tariff duties means a reduction in the burden upon the people's consumption of approximately \$600,000,000."—SENATOR NEWLANDS, in *The Independent*, 73:757. Explain.

26. "To the same extent that the home market is wrested from foreigners and given to protected home producers, the foreign market is wrested from unprotected home producers."—SEAGER, p. 397. Show that this is necessarily true.—T.

## XXIV.

### MONOPOLY.

1. "The monopoly problem is one of the most important practical questions with which economics has to deal."—SEAGER, p. 399. Justify this statement.

2. What conditions warrant the establishment of a public legal monopoly? Illustrate.

3. Give an example of a private legal monopoly. Should this monopoly have been given?

4. "If a patentee does not make use of his patent it should be revoked." Do you agree? Discuss fully.

5. What is a natural monopoly of situation? A capitalistic monopoly? Give examples of each.

6. "Monopoly is more economical socially than competition." Explain what is meant and discuss the validity of the statement. If the statement is true, does it follow that we should encourage monopoly? Explain.

7. "Monopoly is the natural product of industrial evolution." Show that there is some ground at least for accepting this statement.

8. See questions on monopoly price in section VI.

9. Should the following be furnished to the residents of a city by a company having a monopoly, or by competing companies: water, ice, gas, electricity, milk, telephone service, street railway transportation, taxi-cab service? Give reasons for conclusion in each case. If the decision is in favor of monopoly, specify the form of public control that should prevail—public ownership or regulation.

10. "The franchises granted by these cities are the best possible for the gas companies."—A dealer in gas company bonds.

*a.* Name some of the probable stipulations in these franchises. Suggest some probable omissions.

*b.* How should you wish the franchises changed if you were a citizen of one of these cities? If you were a citizen, but at the same time a subscriber to the stock of the gas corporation?

11. Should the policy of the United States government be to destroy monopolies or to regulate them? Discuss the issues involved.

## XXV.

### THE RAILROAD PROBLEM.

1. A certain American railroad is said to haul freight at an average cost of one mill per ton-mile.

*a.* What is a ton-mile?

*b.* How is the railroad able to carry freight at such a low cost?

*c.* What would be the cost at this rate of shipping a ton of shoes one thousand miles? About what would be the cost for each pair of shoes?

*d.* What is the social significance of this low cost of transportation?

2. Enumerate the principal costs which a railroad has to meet. How are these various items of cost affected by, say, a ten per cent increase in traffic? How would dividends be affected by such an increase in traffic if rates remained as before? Is it possible that dividends can be increased by charging a special low rate for this additional traffic?

3. Try to estimate the added cost involved in carrying (*a*) a ten-pound box from Minneapolis to

Chicago; (b) an additional box-car empty; (c) an additional box-car loaded.—(C.)

4. If empty cars are being brought to Minneapolis to be filled with flour, at what rates may the railroads profitably offer to haul freight in them to Minneapolis? May there be social disadvantages in allowing the railroads to carry freight at these low rates? Explain.—(C.)

5. "It is an elementary law of trade that better prices per unit should be made for large quantities than for one article. Then why should you object if railroads make special rates for large shipments?" Discuss.

6. "The law does not attempt to prohibit a merchant from selling to different individuals at different prices or even from giving away his wares. Then why should the railroads be so hedged about by legal prohibitions upon the prices to be charged?" Discuss.

7. "The Standard Oil Company entered into a contract with a railroad under which the railroad was to charge it only ten cents per barrel for transporting its oil while charging other companies thirty-five cents for the same service, and was to pay to

it twenty-five cents of the excessive charge imposed upon its competitors.”—SEAGER, p. 431.

a. Estimate the advantage that this gave to the Standard Oil Company.

b. Were the directors of this company guilty of moral turpitude in making such a contract? Were the officers of the railroad?

c. Why should the railroad have wished to enter into such a contract?

8. “The fact that railway service is subject to decreasing cost has made public regulation of rates more imperative than it would otherwise have been.” Explain.

9. Should federal regulations extend to intrastate business? Argue both affirmatively and negatively.

10. “The power to tax railroads and the power to regulate their rates should be lodged in the same hands.” Give supporting argument.

11. List the principal arguments for and against federal ownership of railroads.

## XXVI.

### THE LABOR PROBLEM.

1. "The labor problem has arisen because the machine has been substituted for the tool." Argue in support of this statement.

2. What is the labor problem?

3. "The laborer's services are perishable. If he does not sell to-day's labor to-day, he loses the possible return forever. The employer, on the other hand, may safely hold his products for a good market."

*a.* Does this fairly indicate the employer's interest in having workmen? Explain.

*b.* Is the laborer at a disadvantage relative to the employer in bargaining? Discuss.

4. "The laborer must deliver his commodity (service) in person." Is this to his disadvantage? Explain.

5. "Wages (of domestic servants) are not only high, but are kept at the high market level without

organization.”—TAUSSIG, *Principles of Economics*, p. 264.

a. Contrast the bargaining position of a servant with that of a factory employee.

b. If middle-class families should come to employ ten servants for every one now employed, the wages of servants would decrease eventually. Why? Would there then be need for servants' unions?

c. What light does this throw upon the general problem of labor unions?

6. “If we could have perfectly free competition among employers and perfect mobility among employees, labor unions would be of no avail in determining wages.”

a. Argue in support of this statement.

b. Would labor unions be necessary even under these assumptions to secure proper working conditions? Explain.

7. “The most important function of the labor union is a social, not an economic, one.” What social functions do labor unions perform?

8. “Scientific management means increased efficiency. Increased efficiency means that fewer men will be required, and as this is not to the interest of the laboring man, I oppose scientific management.” Discuss carefully.

9. "The workman produces each day \$8 worth of products, but he gets only \$2 of this. The capitalist cheats him out of the other \$6." What economic factors are, doubtless, neglected in making this statement?

10. "Employers and employees often forget that they have duties to society."

a. Give several illustrations of this point.

b. Have street car operators a right to strike and prevent the cars from being run? Explain fully.

c. Is this aspect of industry, social dependence upon particular industries, becoming more pronounced? Explain and illustrate.

d. Should compulsory arbitration boards be provided to prevent the cessation of work? Discuss.

11. "These Welsh coal-miners are committing treason in refusing to dig coal at this critical time." "The coal barons are growing rich over the increased naval demand for coal. Why shouldn't they share these gains with the miners? They are the traitors. If they will share these gains, coal will be mined."—Discussion during the July, 1915, coal strike in Wales.

a. Did these miners have a right to share in the gains referred to?

b. Were they justified in striking in order to obtain part of these gains?

12. "It is manifestly unfair for a labor unionist to refuse to work at a given wage and at the same time to deny to his unemployed brother the right to work at this wage." Discuss the issue involved.

13. Briefs in labor cases have recently been based on the social, rather than the legal, aspects of the question involved. Explain the significance of this fact.

14. "The workmen at Krupps' (steel works at Essen, Germany) are fully provided for from birth to old age. They are free from the harassing anxieties of the ordinary laborer so long as they are faithful to the Krupps. . . . The firm simply will not have anything or anybody about the place savoring of labor organization or socialism."—HUNTER, in *Everybody's Magazine*, June, 1915. Do you think that the average American would like to work under such conditions? Discuss.

15. "We do not pay any employee less than \$8 per week."—Advertisement of a Cleveland department store.

a. Why was this store able to pay this comparatively high wage?

*b.* Is this store entitled to the patronage of sympathetic people on account of the wage paid?

*c.* Would you recommend that all employers take such action by way of solution to the low-wage problem? Explain.

16. *a.* State the chief argument against minimum-wage legislation.

*b.* Argue in favor of such legislation.

17. The Studebaker firm has recently provided a \$1,000 insurance policy for each of its employees. The policy is void, however, if the employee leaves, or is dismissed from, the employ of the company.

*a.* Does this scheme interfere with the freedom of the laborer?

*b.* Would it be well if every employer insured his laborers on these terms?

*c.* If insurance is to be furnished, should it be furnished by the state?

18. "We want justice, not charity."—A labor agitator.

*a.* How would the author of this statement define justice?

*b.* What does he mean by charity?

19. *a.* "We cannot escape having social classes and in our society wealth, necessarily, is the line of

division. Laborers are on one side of this line and the capitalistic employers on the other. Hence the labor problem will be with us always." Do you agree?

b. "The labor problem is due to the separation of labor and capital. The only solution is co-operation." Evaluate this statement. Compare the two statements.

## XXVII.

### GOVERNMENT EXPENDITURE AND GOVERNMENT REVENUE.

#### A. INTRODUCTION.

1. What is the question that must be answered in determining whether or not there has been a real increase in the burden of public expenditure?

2. "The paying of taxes involves no hardship, for what the government takes from the taxpayer it immediately returns to him for goods and services." Criticise. Discuss the truth of the statement if the "for" near the end of the sentence were changed to "in."

3. "Expenditures for military purposes are justifiable, as they furnish employment to men who might otherwise starve." Examine.

4. What connection is there between the following factors and the amount of government expenditures: The spirit of nationalism, democracy, skill in the mechanical arts, city life? Illustrate.

5. "The entire question (of the government's taking over certain activities) turns upon the choice of the means of satisfying certain common collective wants."—ADAMS, *The Science of Finance*, p. 67. Justify this statement. Mention the elements that influence choice in this matter.

## B. REVENUE.

6. "The fee system is bad when the fees are retained as salary by the officer collecting them." Explain fully.

7. What should determine the proportion of the cost of paving that should be paid by special assessment? What is the rule in your city?

8. "A tax should be a necessary item in every domestic budget."—ADAMS. "It is confiscation to lay a tax upon what a man cannot save."—ROGERS. Point out the implication in each quotation.

9. "Each person should pay some direct tax."—A ministerial student. Upon what analogy is this probably based? Is it sound? Is the rule practicable?

10. Adam Smith's four canons of taxation may be characterized as follows: Ability, certainty, con-

venience, and economy. Amplify and illustrate each canon.

11. "No tax can be just unless it leaves individuals in the same relative condition in which it found them."—McCULLOCH, *Treatise on Taxation*, quoted from BULLOCK'S *Selected Readings in Public Finance*, p. 164. Examine.

12. "Equity in the apportionment of taxes reduces the burden for the support of the state to its minimum."—ADAMS, *The Science of Finance*, p. 322. Explain.

### C. SHIFTING AND INCIDENCE OF TAXES.

13. Shifting of taxes is a price phenomenon. Forward shifting of a tax can take place only through a withholding of supply.

a. Argue in support of the second statement. Illustrate.

b. When, then, will forward shifting take place? Or, under what conditions will supply be withheld? Answer assuming free competition, and assuming monopoly.

14. "With an invariable demand, the price of the commodity will rise by just the amount of the tax."—SELIGMAN, *Shifting and Incidence of Taxation*,

2nd Ed., p. 189. Does this statement contradict the position taken in the preceding problem? If demand will raise price after a tax is levied, why should it not thus raise price before the tax was imposed? Explain.

15. The Physiocrats argued that all taxes are shifted to the landowners. Develop an argument leading to this conclusion.

16. Suggest a plan for corporation taxation that would not allow shifting; one for the taxing of merchants.

17. See problems in section VI that involve shifting of taxes.

#### D. THE INDUSTRIAL RESULTS OF TAXATION.

18. "A heavy tax on the rich might have the same consequence for the poor as would, say, a moderate tax on wages."—PIERSON, *Principles of Economics*, ii, p. 387. Argue for this proposition.

19. "The effect of placing heavy taxes on the very rich is most harmful in countries which own few securities (either domestic or foreign), or in countries owning securities for which no market can

be found abroad.”—PIERSON, *Ibid.*, p. 389. How can this be true?

20. “Taxation as a weapon of retaliation often proves to be a boomerang.”—SELIGMAN. Give several possible illustrations.

21. “Every tax discourages some kind of production because the aim of taxation is to divert a portion of the productive force of the community from producing what individuals desire as individuals to producing something else which they desire in their corporate capacity.”—CANNAN, *Equity and Economy in Taxation*, *Econ. Jour.*, 11:476.

a. Illustrate the truth of the quotation by assuming a tax to be placed on furniture; on cattle; on the incomes of teachers.

b. Is this what is usually meant by saying that a tax discourages production? Does a tax on land value tend to discourage production? Argue both affirmatively and negatively. Distinguish between a decrease in total production and a change in the form of production.

22. “We (should select) in the imposition of fresh taxes commodities for which substitutes cannot easily be found and with which consumers will not willingly dispense, in order that the incidental loss

to producers may be as small as possible.”—SIDGWICK, *Principles of Political Economy*, p. 573. Explain.

#### E. THE GENERAL PROPERTY TAX.

23. Is all property equally able to bear taxes? Explain.

24. Why is the general property tax particularly unsuited to the taxation of business and professional men?

25. “Although credits may be included within the term ‘property’ from the point of view of law, they are not property in any true economic sense.”—PLEHN, *Introduction to Public Finance*, p. 278. Defend this statement.

26. “Minnesota taxes money and credit at the rate of three mills, while it taxes other property from six to eight times this rate. This is justifiable theoretically and practically.” Explain.

27. “Strictly enforced, the general property tax must inevitably impose a burden upon forest lands which in certain cases might easily amount to one-half or even three-fourths of the total income when finally received.”—Fairchild, *Proceedings of Tax*

*Association*, 1912, p. 373; National Tax Conference, 1912. Mention other properties of which the above is true. Does this constitute an argument against the general property tax? Explain.

#### F. THE INHERITANCE TAX.

28. The inheritance tax is justified on several different grounds. Suggest three or four of these. Which is the best?

29. Rhode Island does not have an inheritance tax. Account for this exception to the general rule.

30. Argue in favor of a national inheritance tax to take the place of the state inheritance taxes.

31. Examine the following propositions:

a. Rates on inheritances should vary inversely with nearness of kin.

b. Rates should vary directly with nearness of kin.

c. Rates should not vary with relationship.

d. Rates should not vary with the amount inherited.

#### G. THE INCOME TAX.

32. "The only possible objection to relying almost exclusively upon an income tax for public rev-

enue is that it is difficult, or impossible, to administer it properly."

*a.* Develop an argument in support of this contention.

*b.* Is the difficulty of proper administration insurmountable? Discuss.

33. Give several illustrations to show what is meant by "stoppage at the source."

34. Argue that income from personal services should be taxed at a lower rate than income from property.

35. Account for the growing demand for state income taxes in this country.

36. Is there any objection to having both a national and a state income tax? Would that amount to double taxation?

## H. THE TAXATION OF CORPORATIONS.

37. Should corporations be taxed at the rates imposed upon other property?

38. "The service charges of public utility corporations should be pushed down to a no-tax basis

and the corporations exempted from taxation." Give arguments for and against.

39. Should not Michigan residents holding stock in an Ohio corporation be free from taxation upon the stock inasmuch as Ohio taxes all stock to the corporation? Should they not be taxed upon it that they may share in the burden of their government?

40. "Life insurance is a tax, and to tax it is to commit the economic barbarism of taxing a tax."—An insurance journal.

*a.* What does the author mean by calling life insurance a tax? Is he justified in so characterizing it?

*b.* Show that the tax on insurance companies is not inequitable.

*c.* Argue for the exemption of insurance companies from taxation.

41. What is the proper basis for the taxing of corporations: property, gross revenue, or net revenue? Explain.

42. How shall the property value of a railroad be apportioned, for purposes of taxation, to the different political divisions through which the road runs?

43. "Taxes levied upon the revenue of corporations usually have a property basis, and thus revenue taxation cannot be defended on the ground that it avoids the difficulties of a property valuation." Examine.

#### I. SINGLE LAND TAX.

44. State the argument for a single land tax; against it.

45. "A tax on goods increases their price, a tax on land decreases its price. The aim should be to make all things low in price. Therefore, we should tax land only." Examine.

46. "Rent is a price paid for the management of land in the industrial system." Argue in support of this statement. What bearing has this on the single tax controversy?

47. Contrast the positions of the Physiocrats in regard to a single land tax with that taken by Henry George.

48. Sismondi asked, in answer to a demand for a revision of the land tax, "Do you wish equality between men or between lands?" Show that this question was pertinent.

49. What relation is there between the tax on the unearned increment of land and the single land tax? What is the vital difference between them?

50. "Increase in land value may be earned through purchase just as present rents may be so earned." Explain. What limitations does this place upon increment taxes if we would have them avoid confiscation from present owners? Suggest a plan for taxing the increase in land value that will not confiscate present value.

51. What objection, other than that of confiscating from present owners, is there to taxing away all of the increase in land value?

52. What is the objection to modifying the general property tax in the one particular of taxing away the benefits resulting from the privilege of land ownership?

## XXVIII.

### PROJECTS OF ECONOMIC REFORM.

1. "The economist reformer necessarily bases his proposals upon some concept of an ideal society."

a. Outline briefly the main features that you would expect in an ideal society.

b. Are any economic reforms necessary to the realization of, or to the approach toward, this ideal? If so, what are they?

2. "Proposed reforms are 'mechanical' or 'evolutionary.'" Distinguish between these two classes of proposals. Illustrate each.

3. "Pecuniary gain, not social utility, guides individuals in their industrial conduct." Show that desire for pecuniary gain may lead to the best service for society; that it may lead to harmful, or at least not to the best, service. Which condition is the more prevalent? If price (desire for pecuniary gain) does not regulate industrial conditions in the interest of society, what can we do about it? Answer explicitly.

4. "As our industrial relations become more complex, social control becomes more necessary."

a. Are our industrial relations becoming more complex? Explain and illustrate.

b. Give illustrations of social control of industry, or of industrial conditions.

c. May social control be due in some instances not to the growing complexity of industrial relations but to the growth of the social conscience—to the extension of the spirit of brotherhood? Illustrate.

5. "Medical assistance is so vital to the health and life of the people that it will sooner or later be socialized." What is meant by this statement? How could medical assistance be socialized? What would be the advantage gained? Would there be any disadvantage? Would this be an "economic reform"?

6. "Canal dues and highway tolls have been abolished, but railway freights (on government owned roads) never: why the one and not the other?"  
—PIERSON, *Principles of Economics*. Answer.

7. Should the state furnish university instruction without expense to the student? If the state gives instruction without expense, why should it not also support the student during the years of study?

8. Suppose that X. and Y. are twins, and of equal native capacity. Suppose that their parents die when they are both young, and that X. is then brought up and educated by a rich uncle, while Y. is brought up but not given much education by a poor aunt. X. makes an income of \$10,000 per year; Y. makes one of \$500. Is this right?—P.

9. “The practices of scientific advertising and of suggestive selling have very little proved utility and are nearly as likely to be applied to force the wrong articles on the wrong purchasers as to distribute wealth along the lines of its maximum utility for consumption.”—HOBSON, *Work and Wealth*, p. 218. Evaluate this statement. Accepting it as true, what should be our attitude toward the practices mentioned?

10. “If there are trades incapable of bearing the true costs of maintenance of the labor they employ (in wages and insurance), it would still be right to place on them the obligation to do so, for their destruction will be a gain, not a loss, to a society that understands its human interests.”—HOBSON, *Ibid.*, p. 230.

a. Suggest the various kinds of insurance that might be included here.

b. Give argument in support of this contention.

c. Argue in opposition to this contention. Show that industry as a whole might be in such a condition that these costs could not be borne. Should a person be prohibited from working, if he cannot earn the total costs of his maintenance?

11. "Equality in income would result in a great waste in the social utility derived from consumption."—HOBSON. Defend this statement.

12. In the preface to *Munera Pulveris*, Ruskin criticises the teachers of economics, and by inference the industrial order, because those things which are "illth" may be rated above those things which are "wealth."

a. Give a few illustrations to show that we often make the mistake to which Ruskin objects.

b. Accepting this to be a regrettable condition, what can we do about it?

c. As times goes on, do you believe that market estimates will become more, or less, accurate in estimates of "wealth"? Explain.

13. "No longer do men see it wise to work fourteen hours per day. . . . The fact that there are no men to regret these shorter hours with their limitation of product amounts to a direct approval of the choice of leisure as against product. What determines that the final wise limit of restriction upon

labor and product has already been reached? ”—  
DAVENPORT, *The Annalist*, Nov. 8, 1915.

*a.* Do you believe that the average working day should be shortened still more?

*b.* Formulate a general statement as to when it is advisable to substitute leisure for product.

*c.* In this same article Davenport makes a similar point in regard to the saving of capital. Formulate a proposition and a question in line with this position.

14. “How far is it true that the pleasure of the wearer of pearls can be regarded as offsetting the pains and dangers of the pearl diver? The wearing of hand-made lace as offsetting the making of it? The artificial flowers, the labor of the flower girl?”  
—DAVENPORT, *Ibid.*

*a.* State definitely the point that Davenport is making here.

*b.* If the pleasure to the user does not offset the pain to the producer, should the article be produced? Discuss fully, stating some ground, at least, for not taking the negative view?

*c.* State the difference between the point in this quotation and that in the preceding one.

15. “No person should be allowed to give his heirs more than \$1,000,000.”

*a.* Argue that large fortunes are socially undesirable.

*b.* What may be the danger in such a policy of inheritance taxation as is suggested here?

*c.* "If the large fortunes are undesirable, conditions should be adjusted so that they cannot be accumulated." Do you agree?

16. "All 'unearned' incomes should be taxed into the treasury of the state." What is meant by unearned income? Is there an element of this kind in the landlord's income? In the return to a stock speculator? In a lawyer's income? In a professor's salary? In a laborer's wages?

17. "It is inevitable that certain persons should ride and that others should walk, but we should make the walking as good as possible."

*a.* Is inequality of income inevitable? Explain.

*b.* Name several social and economic improvements that are suggested by the second clause.

## DIRECTIONS TO THE STUDENT.

### I. *Attacking the Problems.*

1. Read the assigned problems carefully.
2. Study the text or other assigned reading, keeping the problems in mind.
3. Make sure that you understand the terms used in the problems.
4. Determine the particular point at issue.
5. Bring to bear upon the problem all the knowledge you possess that relates to it, whether gained from the text, lectures, class-room discussion, or personal experience. Consult your *notes*.
6. State your answer definitely and adequately. Yes and no answers are never permissible; *explain, discuss*, but do not say more than is necessary; be *succinct*. Where possible, *state the economic principle involved* and give illustrations, preferably original ones.

### II. *Preparing and Correcting the Written Exercises.*

The following directions, which appeared in the original local edition of this book, are included here for the convenience of such teachers as may care to use them.

Students will prepare the solutions to the problems, which are assigned to be written, upon "economics paper." \* The student's seat number and his name shall be placed on the first and second lines in the center of the first page, the instructor's name and the number of the recitation section on the third and fourth lines at the left of the page, and the exercise number and the assignment on the third and fourth lines at the right of the page. For example:

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A. B. Smith

Mr. \_\_\_\_\_

Ex.7

Sec. 5.

VI—1, 3, 6-10, 12.

The following scheme of marking will be used: ✓ signifying excellent; no mark, good; wave-line, something wrong; p, missed the point; i, incomplete; v, vague; a, inadequate; q, see the question; x, wrong. A check (✓) placed at the top of the first page will indicate that the paper as a whole is excellent or very good; a cross (X) will indicate that it is below grade. The papers will be marked and returned to the student to be corrected, in red ink, and returned to the instructor. Papers which do not need corrections shall also be returned to the instructor for filing. The student will label all of the returned papers *corrected*.

\* This paper consists of two sheets about 9½ inches by 12 inches stapled together and folded into four pages.

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